The Empire Club of Canada

Founded 1903

Addresses 1985-1986

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Addresses
1985-1986

HARRY T. SEYMOUR
President, 1985-1986

The Empire Club Of Canada

Founded 1903

Addresses 1985-1986

GOD SAVE THE QUEEN

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The Empire Club of Canada

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1984–1985	Catherine R. Charlton, M.A.

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†*Deceased*

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HER MAJESTY, THE QUEEN
HIS ROYAL HIGHNESS THE PRINCE PHILIP,
DUKE OF EDINBURGH

Her Majesty is wearing the Insignia of the Sovereign of the Order of Canada and of the Order of Military Merit

PRESIDENT'S MESSAGE

In keeping with tradition the eighty-third year of The Empire Club was marked by several notable events. Her Excellency, The Rt. Hon. Jeanne Sauvé, Governor General of Canada, addressed us on "Our Responsibility to Youth". The Hon. Lincoln Alexander, Lieutenant Governor of Ontario, brought greetings from Her Majesty The Queen on the ocassion of both our Christmas Luncheon and our Spring Ball. The Premier of Ontario, The Hon. David Peterson, chose our forum of record to announce his position on the "free trade" issue prior to the opening of the fall session of The Legislature. The subject of "The World Economy" was addressed by the distinguished Paul Volcker, Chairman, U.S. Federal Reserve System. These and other addresses by prominent Canadian and international speakers, covering many fields of interest, are recorded in this 1985-1986 Yearbook.

The Empire Club Yearbook, published annually since 1903, provides a valuable reference for scholars researching Canada's development. Published by The Empire Club Foundation under the capable leadership of Col. Robert H. Hilborn, and funded by the generosity of many companies and individuals, the Yearbook is distributed free of charge to more than 4,000 Canadian libraries as well as to our 2,800 members.

As the highlights indicate it has been a most memorable year for The Club and we trust that you will enjoy many of the addresses that follow. My sincere thanks go to the directors and members of The Club for their unfailing support throughout the year. To my partners at both Dominion Securities Pitfield Limited and Dominion Securities Pitfield Investment Management Limited I owe a deep debt of gratitude for their support and generosity in allowing me to accept this opportunity.

Harry Taylor Seymour
President 1985-86.

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The Hon. Barbara J. McDougall, P.C., M.P.

Minister of State for Finance

BUDGET '85 SPECIAL MEETING OF THE EMPIRE CLUB OF CANADA

May 27, 1985

The President
Harry T. Seymour, Chairman

Mr. Seymour

Distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today the Hon. Barbara J. McDougall, Minister of State for Finance.

Against the backdrop of a record deficit and persistently high unemployment rates, the Government of Prime Minister Brian Mulroney tabled its first budget in the House of Commons on Thursday, May 23. Speculation as to its contents has ended. Examination of its impact continues with somewhat divergent opinions being reached, even amongst Canada's senior financial analysts. To quote from one report:

> "As expected, the budget has one key objective—deficit reduction. The budget attacked the deficit from both sides. Personal, corporate and sales taxes gained revenue from both base broadening and higher rates. . . Spending cuts were more aggressive than expected."

Another group of analysts expressed a somewhat different opinion:

> "The Conservatives' first full budget represents a mixture of major steps to enhance Canada's investment cli-

> mate and a disappointingly cautious approach to near-term deficit reduction. . .Whether these positive initiatives will be enough to overcome disappointment on the limited over-all budget reduction will depend on the extent to which the investor is willing to look beyond near-term sluggishness in North American growth.''

The Hon. Barbara McDougall came to this key ministry in the Federal Government after a long and somewhat demanding preparation. Following graduation from the University of Toronto with an Honours B.A. in Political Science and Economics, she moved to Vancouver where she worked as a financial analyst for Odlum Brown Limited for eleven years.

Before returning to Toronto with A.E. Ames and Company Limited, where she became a vice-president, she qualified for the professional designation of Chartered Financial Analyst.

Fortunately, she was not content to focus all her efforts on finance. She became involved in community affairs—Okalla Prison Farm, Vancouver Art Gallery, Second Mile Club and Salvation Army Red Shield Appeal.

Her political involvement began as a scrutineer in Toronto, flourished as a press and policy adviser in Vancouver and a campaign manager in Toronto. It culminated in her sweeping—and somewhat surprising— election victory in St. Paul's riding on September 4, 1984. Elaine Dewar, in the March 1985 issue of *Toronto Life*, expressed the degree of surprise:

> ''Her background just didn't suggest the royal jelly needed to take St. Paul's. St. Paul's is a swing riding. Usually a cabinet minister represents it.''

On September 17, our guest speaker was sworn in as Minister of State for Finance. Her duties include filling in for the Minister of Finance; responsibility for eight Acts of Parliament, including The Bank Act and The Investment Companies Act; The Tariff Board; and The Regulation of the Financial Services Industry.

Ladies and gentlemen, I am pleased to introduce The

Hon. Barbara McDougall, Minister of State for Finance, who will address us on the subject, "Budget '85."

Barbara McDougall

It is always a privilege for me to be invited to share my thoughts in Toronto, in my own community, especially before an audience as distinguished as the Empire Club, which is a haven for thoughtful dialogue and public affairs.

And it's my privilege to talk to you about what we hope will be an historic document for Canada. Historic because it marks a break with the past; historic because it puts the responsibility for our prosperity back where it belongs—with you in the private sector. Historic because it faces the reality that our future is in danger if we do not act now to build competitiveness, vitality and common sense into our economic expectations.

Any government, in developing a fiscal agenda, faces competing pressures between economic and social objectives. And, while we are sensitive of the importance to Canadians of compassionate social policy, we believe that the economic side of the balance sheet has been too long ignored. That initiative, self-reliance and personal choice are the basis of prosperity and opportunity in a democratic society.

The budget reflects our Government's view of what politics and government are all about. None of us entered public life because we believed that government should be making only the easy decisions. Any government that makes only easy decisions will find that it soon loses both the fiscal capacity and the political will to make tough decisions when they must be made.

Political morality requires us to face reality as it exists and to attempt to do everything we can to ensure that more and more of the people we serve can live full lives.

That's what Michael Wilson's budget is about. That's why I believe it's the right tonic, the right step, the right direction for a country that's committed to getting on its feet, sustaining economic growth and expansion, and providing the wherewithal to ensure economic opportunities for all.

Our Government is about change. Canadians right across the country gave us an overwhelming mandate for change and we believe our economy and our society need some very fundamental changes—changes that respond positively to the new realities in Canada. Some of those changes are *tough*, but we are striving to ensure that they will not be *hard*: that the burden will fall fairly across many sectors without leaving behind, in any one group, devastation or demoralization.

On September 4, Canadians voted for us because we promised to tackle the causes, not the symptoms, of our chronic economic malaise.

Last Thursday's budget reflects and builds on that commitment.

I can't emphasize enough that this budget makes a fundamental break with the past. Canadians have told us that they don't expect the Government to solve all their problems. What Canadians have told us is they want a country where they themselves, through risk and enterprise, through daring and commitment, can have a fair chance to build their own life and their own future.

It's a budget of understanding, prepared after a lot of deliberations with Canadians who told us they're aware that this is a time of difficult choices and painful decisions. And above all, it's a budget of challenge—the challenge of redressing the tragic problem of unemployment that is denying too many Canadians, especially our young people, from being productive members of their community. But it's not a challenge for the Government alone.

As the Prime Minister said in Winnipeg last week, Canadians have learned that spending borrowed or printed money will not create durable jobs. Government spending does not create jobs. Government spending creates deficits.

We believe the challenge to create those durable jobs lies squarely with you—with the private sector.

Increasing the deficit—and spending borrowed money and writing cheques—are easy decisions to make. But they do not create the kind of jobs that lead to satisfying careers. Direct job creation by government is at best a stopgap measure. We have proof. Canada's record of the last decade should have put and kept most Canadians working.

Our budget addresses both the tragedy and the nightmare of unemployment, in a thoughtful and consistent manner. Our initiatives on job creation and deficit reduction are realistic, balanced, and fair.

Our budget aims at securing economic renewal for Canada by restoring the economy's capacity to generate growth and create jobs and economic opportunities. We are proposing to achieve these goals by:

- encouraging private initiative
- managing government more effectively
- and controlling the national debt.

We believe that it's people who make our economy work, not government. We believe that jobs and economic renewal come from private initiative.

Mais nous reconnaissons aussi que nous ne pouvons pas demander aux Canadiens de partager l'effort nécessaire pour le renouveau économique sans faire notre part. C'est pour cela que nous avons étudié les affaires du gouvernement avec le but de les rendre plus efficaces et aussi pour assurer que nos programmes sociaux sont dirigés vers ceux qui en ont le besoin.

But we also recognize that we cannot ask Canadians to share in the effort required to set the country on the road to economic renewal if we do not first put our own house in order. That's why our budget contains a variety of measures to streamline government operations, curb its growth and ensure that public programs are more effectively managed and better targetted to those in need.

We know that, unless we control our accumulating debt, our economy will not produce satisfying jobs for all who need them. By acting now, we have cut *$75 billion* from the *projected* level of the national debt by the end of the decade.

Since we announced $4.2 billion of savings in our November Economic Statement, the Government has identified an additional saving of $2 billion in the 1985-86 fiscal year from better management of its affairs.

This means the 1985-86 deficit will be reduced from what it would have been with no action by the Government by *$4.4 billion* to $33.8 billion and the 1986-87 deficit will be similarly reduced by *$8.3 billion* to *$32.7 billion*.

I would like to illustrate one of our decisions in this area of better government management and efficiency. We are closing the two heavy water plants in Cape Breton. The plants in Glace Bay and Port Hawkesbury have for many years been striking symbols of government waste and mismanagement. They cost the taxpayers of this country more than $100 million a year to produce a product for which there is no demand. But, while we are happy to abandon these plants, we will not abandon the people of Cape Breton. We will not turn our back on the people of Cape Breton affected by the closures. Workers at the plants will receive generous severance benefits and will be assisted in seeking new employment. An enriched tax incentive for new investment in Cape Breton will mean that almost all new investment in Cape Breton will be free of corporate income tax for ten years.

In this combination of measures, the Mulroney Government has indicated the heart of the philosophy. We are prepared to be realistic; but, while we will tear down plants, we will build up people to prepare them for a better future.

The actions in the May 23 budget emphasize the need for fairness in the Government's approach to policies, programmes and people. We had to face some difficult realities and put forward some hard proposals. But we maintained—and improved—the concept of fairness in Government actions.

The budget sets out internal measures that we are taking to tighten our own belts and increase the effectiveness with which we spend our tax dollars:

- The Public Service pension plan will be put on a fully funded basis, with no taxpayer subsidy;
- The guarantee of full indexation of MPs' and Senators' pensions will be ended January 1, 1986;
- An aggressive programme is being put into place to improve the Government's management of its cash and to dispose of property that it no longer needs;
- The size of the federal Public Service will be reduced by 15,000 positions over the next six years; and
- There will be no compensation for inflation in the Government's operating and capital budgets.

We have also placed a high priority on the better management of Crown corporations and making sure that they serve a public purpose. Where Crown corporations, such as Teleglobe, Northern Transportation and Canadian Arsenals, have a commercial value but no public policy objective, they will be sold. Others will be eliminated. And still others will be rolled into the appropriate Government department.

To reduce the deficit, we have also brought in tax measures. Net revenue measures introduced by this Government amount to $0.4 billion in 1985-86 and $2.2 billion in 1986-87. By 1990, we anticipate net revenue measures to be about $4.3 billion.

These amounts are small compared to the total deficit reduction of over $20 billion through cost-cutting we've identified by 1990-91.

Only 20 per cent of the deficit reduction in 1990 will be attributable to taxation measures. The balance of deficit reduction will come from action taken on the expenditure and cost-recovery side.

Our Government designed changes to the tax system in a fair and equitable manner. While tax changes contribute to deficit reduction, they have been designed to minimise the impact on incentives to work and to invest. For example, some of the tax increases in the budget are temporary, such as the corporate and personal-income surtaxes.

Thus they would have little impact on savings and incentives.

The Unemployment Insurance rate is not being increased, thereby providing substantial relief to the private sector.

Some tax changes improve incentives to save and invest, as in the case of the RRSP and private pension plans, and capital-gains-tax proposals. In other cases, they help remove existing relative price distortions, as in the case of broadening the sales-tax base.

As a result of the net tax increase, revenues-to-GNP will reach 15.9 per cent in 1990-91 (in the mid-range case) compared to a peak of 18.7 per cent in 1974-75 and a level of 15.2 per cent in 1984-85. Program expenditures, on the other hand, are projected to drop from 18.4 per cent of GNP in 1984-85 to 14.9 per cent in 1990-91.

Time and time again, you in the private sector have told us to bring down the deficit, so that you can expand and produce more jobs. We are reducing the deficit. We are giving you the framework to create those jobs.

With this measure, the Government is sending a clear message to Canadians across the country. If we work together, we can build a strong and prosperous country.

This Government is challenging more of you to create jobs and wealth by investing in Canadian enterprise. The lifetime $500,000 capital-gains exemption is a strong signal that our Government wants people with good ideas and the will to persevere to enjoy the fruits of their success. And we are confident that Canadians will accept that challenge.

Small and medium-sized businesses will also benefit from our proposals to change regulations governing RRSP and pension-fund investments. These measures will allow greater investment by pension funds in new businesses and in small businesses seeking to expand. RRSPs will be eligible to invest directly in smaller Canadian businesses.

The budget contains many other measures to encourage private-sector growth and job creation. These include:

- Assistance in the form of tax credits to individuals investing in labour-sponsored venture-capital funds set up within a province to invest in small and medium-sized businesses;
- Small business will be exempt from the five-per-cent one-year corporate surtax, in recognition of the importance of strengthening small business and facilitating job creation:
- Small businesses and farmers will benefit from the extension of the small-business bond program until 1987;
- New and growing research-and-development companies will be entitled to a direct refund of the full tax credit they earned on their first $2 million of R&D each year;
- Action will be taken to make the tax system more fair and to improve tax administration. These actions will benefit all of us, but especially entrepreneurs and small-business owners, by reducing administrative headaches.

The budget establishes a very important premise about the Progressive Conservative Government, and that is that the Government must serve the people and not the other way around.

Canadians did not have to wait for the budget to see our philosophy at work. Let me illustrate how we've been practising what we preach since we took office.

The energy accords reached between my colleague, the Hon. Pat Carney, and her counterparts in British Columbia, Alberta, and Saskatchewan and in Newfoundland deserve mention. These are significant agreements because they represent arrangements between the provinces, the private sector and Ottawa that are equitable and responsible. These energy accords signify a new era of federal-provincial co-operation.

These accords mean more jobs for Canadians. An oil rig in Alberta doesn't just mean jobs in Red Deer or Peace River. An oil rig in Alberta means jobs in the plants of Hamilton and Sarnia. A rig on the Grand Banks means jobs on the rigs, jobs on supply vessels and on land. A new rig anywhere in Canada means jobs for young engineers from

St. John's to Victoria.

Canadians were tired of all the shouting. And we intend to use energy as a policy of unity, not a policy of division.

This mood of federal-provincial harmony is an essential part of our national goal for economic renewal all Canadians want. This Government intends to make it possible for us, whether we are individual Canadians or businesses, to achieve our potential. That's the way to our future prosperity. We need a concerted and concentrated effort by all Canadians, particularly by the private sector.

Our budget measures to encourage growth are designed to promote job-creating investment, especially in the small-business sector. Our measures to manage government more effectively will create an environment for enterprise that will promote this growth, while checking the influence and intervention of the Government bureaucracy. And our measures to reduce the deficit are carefully balanced to do this over the medium term, so as not to threaten our tenuous economic recovery.

This is what our budget can do for you—for Canada. We have created the environment for you to prosper; now go out and invest. Go and help put Canada to work.

We, as a government, have taken the lead to create lasting jobs.

We made fair but tough decisions to reduce the deficit because, as Michael Wilson stated in the budget, our national debt is $200 million—and growing. I do not need to remind you what this means. But let me remind you of the consequences of not addressing this issue, of "doing nothing": nothing gets done. Except, of course, that we become more deeply mired in debt and, I would venture to add, our job security—yours and certainly mine—becomes more tenuous.

The Progressive Conservative Government's first budget marks a new beginning for Canada, as we veer away from the tired and unsuccessful ways of the past.

This budget is a pledge from the Progressive Conservative Government to all Canadians that we will fulfill our mandate for change, for economic renewal and job creation.

And it demonstrates our most fundamental message of hope and opportunity: that democracy and enterprise lead to extraordinary achievements by ordinary people.

The appreciation of the meeting was expressed by H.N.R. Jackman, a distinguished Past President of The Empire Club of Canada.

Joint Meeting of The Empire Club of Canada
and
The Royal Commonwealth Society (Toronto Branch)

DOMINION OF CANADA DAY LUNCHEON

June 26, 1986
The Sheraton Centre

Co-Chairmen
Harry T. Seymour
President, The Empire Club of Canada
and
Laura Sabia
Vice-Chairman, The Royal Commonwealth Society
(Toronto Branch)

Toast to Canada and the Commonwealth

Laura Sabia
Vice-Chairman, The Royal Commonwealth Society

Response to Toast to Canada and the Commonwealth

Ronald Goodall, F.C.A.
Third Vice President, The Empire Club of Canada

Mr. Seymour

Distinguished guests, members and friends of The Empire Club of Canada and The Royal Commonwealth Society it is my pleasure to welcome as our guests today three distinguished members of The Aldeburgh Connection.

Aldeburgh Suffolk, home of The Aldeburgh Festival, is not the English seaside town of bathing huts and ice-cream sellers, but of fishermen, unshaven and tired: a town of contrasts from its old-fashioned hotels and curious houses to the yacht house where members talk about sailing and sip gin and tonics.

However, it is the influence of The Aldeburgh Festival, founded by Benjamin Britten in 1947, which attracts an international crowd of performers and audience every year, that has stamped this enigmatic mark on an otherwise average seaside town.

The Aldeburgh Connection, the Canadian extension of The Aldeburgh Festival, was formed in 1982 by Bruce Ubakata and Stephen Ralls as a means of increasing the opportunity for Canada's young singers to perform the enormous concert repertoire for voice and piano.

Today we are privileged to have three distinguished members of this group with us: Stephen Ralls, who is known for his work with the Canadian Opera Company; Gaynor Jones, soprano, known for her concert work throughout Canada, and Daniel Neff, baritone, performing throughout Canada in opera and oratorio.

Ladies and gentlemen, I am pleased to introduce Stephen Ralls, artistic director, The Aldeburgh Connection, who will introduce our programme, which is entitled "Sea Fever." Mr. Ralls.

The appreciation of the audience was expressed by MGen. Reginald W. Lewis, a distinguished Past President of The Empire Club of Canada.

Ann Landers
Syndicated Columnist and Lecturer

PEOPLE WITH PERFECT LIVES—AND OTHER LIARS

September 16, 1985

At a meeting held jointly by
The Canadian Club of Toronto
and
The Empire Club of Canada

Co-Chairmen
James B. Pitblado
President, The Canadian Club of Toronto
and
Harry T. Seymour,
President, The Empire Club of Canada

Mr. Pitblado

Welcome, ladies and gentlemen, to this joint meeting of The Canadian Club of Toronto and The Empire Club of Canada.

For the record, I would like to recognize and publicly acknowledge the gratitude we all owe Beland Honderich, publisher of *The Toronto Star*, for his efforts in arranging for the appearance of today's guest speaker, Ann Landers. Your assistance, Bee, is greatly appreciated.

For the second time in the past two years, Toronto's two premier downtown luncheon clubs have combined to open their respective seasons with a joint meeting featuring a woman speaker of international renown. In September 1983, we were privileged to welcome in this very ballroom one of the world's leading figures, the Iron Lady from Great Britain, Prime Minister Margaret Thatcher.

Our guest speaker today is, I submit, equally well recognized and indeed respected on the international scene, albeit in an arena somewhat different than politics, although, possibly, it would be more accurate to say that she, too, deals with politics but of a different making.

Born in Sioux City, Iowa, as an identical twin on American Independence Day, she was christened Esther Pauline and is known to her friends as Eppie. Since September 1955, she has been known to a worldwide audience of an estimated 85 million readers simply as Ann Landers.

At the age of 37, with no previous training or experience whatever, she was selected by *The Chicago Sun-Times* as the new Ann Landers. For the past 30 years, she has been the world's most influential dispenser of advice and counsel.

A grandmother, at an age when most others would have retired long since, this dynamic lady still works, often 12 to 15 hours a day, but always seven days a week, 365 days a year. Her syndicated column appears in some 1,100 newspapers around the world, and since 1958 she has been a regular part of the Toronto scene through her column in *The Star*.

She has lectured from pulpits, on campuses, and in countless auditoriums around the world. She has received some 15 honourary degrees and a list of awards as long as your arm. In addition she finds time to make substantial public-service contributions to numerous boards, foundations, and universities. A *World Almanac* poll recently showed Miss Landers to be the most influential woman in the United States.

What lies behind the truly amazing success story? A lady of indominable energy. A lady who has seen a lot of the world and has a great deal of common sense. A lady who early on recognized she is not a professional therapist, but is a person who genuinely cares for people and accordingly who has become respected and, above all, trusted by her readers.

It has been said that "her basic advice sounds like a colloquial rendition of the Ten Commandments—with zingers." She has been able to hold on to her basic principles while at the same time recognizing that the world does not stand still and that values *do* change. She provides solutions to her readers' problems in language that is persuasive, pithy, often funny, occasionally eloquent, and always accompanied by a large measure of common sense.

You will, of course, be wondering why Ann Landers, who is a diminutive five feet two inches in stature, today decided to make herself physically even shorter and more inconspicuous. Late last week, she suffered an unfortunate fall on an escalator and almost 60 stitches were required to close the wounds on her legs. The fact that she has carried through with this engagement today tells more about the character of this remarkable lady than all the words that have been written about her—and they are legion.

Her speech title is: "People with Perfect Lives—And Other Liars."

Unfortunately, Ann Landers never adheres to any kind of script, and does not provide copies of her presentation to be taped or reproduced. She sends her apologies.

Also, Miss Landers thanked The Empire Club of Canada and The Canadian Club of Toronto for the warm hospitality and most gracious audience. She feels this was the best group in her 30 years of speaking.

The appreciation of the audience was expressed by Harry T. Seymour, President of The Empire Club of Canada.

The Hon. David Peterson
Premier, Province of Ontario

ONTARIO'S TRADING RELATIONSHIPS IN A CHANGING WORLD

September 26, 1985

At a meeting held jointly by
The Empire Club of Canada
and
The Canadian Club of Toronto

Co-Chairmen
Harry T. Seymour
President, The Empire Club of Canada
and
James B. Pitblado
President, The Canadian Club of Toronto

Mr. Seymour

Distinguished guests, members and friends of The Empire Club of Canada and of The Canadian Club of Toronto: It is my pleasure to welcome as our guest speaker today the Hon. David Peterson, Premier of the Province of Ontario.

Sir Francis Drake, 16th century English admiral, in a dispatch to English statesman Sir Francis Walsingham on May 17, 1587, stated:

"There must be a beginning of any great matter, but the continuing unto the end until it be thoroughly finished yields the true glory."

For our guest speaker today, Ontario's foremost politician, the *beginning* of the politicization process took place at birth, due to his family's long history of political involvement. The process was furthered in 1973, when he married Shelly Matthews, daughter of National Conservative Party President Donald Matthews.

It was formalized in 1975, when he was elected as a member of the Ontario Legislature for the riding of London Centre.

Unsuccessful in his bid for the leadership of the Liberal Party of Ontario in 1976, David Peterson remained undaunted in his pursuit of political success. He continued to build his London Centre base, where he was re-elected with increasing majorities in 1977 and 1981.

When the leadership convention of February, 1982, was announced, David Peterson and his supporters were ready for the challenge. Although he won the convention by close to 400 votes, David Peterson remained an unknown to most Ontarians. His admirers insisted he was a superb organizer with the potential to grow in stature, to advance team spirit, and to address social and practical problems pragmatically.

With his victory, he announced he would lead a party unburdened by "debts, doubts and disorganization." It meant obliterating the $350,000 deficit from the 1981 provincial campaign and "developing the inventory," which translated into finding the most capable people.

Within days of becoming leader, he realigned the caucus by promoting several bright young "lights." Within weeks, he had assembled a staff known for its intelligence and an ideological range from middle-of-the-road to left-of-centre.

The successful Heritage Dinner on May 5, 1982, allowed Peterson to erase the party debt. Grateful for the support, he personally thanked all the dinner organizers. By May 7, the thank-you's were beginning to generate endless promises of future support.

David Peterson maintained the momentum that summer by joining his wife Shelly and their three children on an Ontario-wide holiday to gain a thorough understanding of the province's needs.

Committed to generating public confidence in his ability to address these needs, especially unemployment and government spending, Peterson worked tirelessly throughout 1983 without making any apparent inroads in voter appeal, as confirmed in the July, 1983, Gallup Poll.

Yet he pressed on with his mission, encouraged by the response of the Ontario public on the issues of unemployment–and accountability of government spending and administration.

The major breakthrough occurred in the fall of 1984 when William Davis announced his intention to resign as Premier. Uncertainty as to the future direction of the Province of Ontario became an issue overnight. On March 25, 1985, the writ was issued for a May 2 election. When the results were tallied, the Peterson organization had attracted 38 per cent of the popular vote and produced 48 seats, insuring a minority government.

The minority-government position necessitated delicate negotiations. The Liberals formed their alliance with the New Democratic Party and defeated the Tories in a vote of non-confidence. David Peterson accepted the Lieutenant-Governor's invitation to form a new government and on June 26, 1985, was sworn in as Ontario's 20th Premier.

David Peterson's "great matter" continues. He has been quoted as saying that he wants to be remembered for dramatically changing the way the province is governed and for delivering on his promises to the people of Ontario. His tenacity and ability make us hopeful he will "keep well the road."

Ladies and gentlemen, I am pleased to introduce the Hon. David Peterson, Premier of the Province of Ontario, who will address us on the subject, "Ontario's Trading Relationships in a Changing World."

David Peterson

Mr. Chairman, distinguished guests, ladies and gentlemen. You know, Harry, I was very interested in hearing your introduction. I have no idea where you dredged up some of those obscure little details about my past; that being said, it was largely true.

And I do remember, as you say so well, that, when I assumed the leadership of the party some three and one-half years ago, I was unknown. But have you noticed, Harry, how many red ties there are here today? And I remember well, too, your comment on my marriage to the daughter of the President of the National Conservative Party; but I have an update for you. Her mother is now a very good Liberal. Her four sisters and brothers are good Liberals as well, Harry. Now we don't have her father, but every political party has to have some standards, and we can't just take everyone.

I know what a very distinguished group of speakers you've had lately to address the clubs jointly. You've had Prime Minister Brian Mulroney, John Turner (Leader of the Opposition), columnist Ann Landers; I'm obviously in extremely distinguished company. Although there are differences between Ann Landers and me—not only the difference in the size of our speaker's fees. There are others as well; you know, she is besieged by nine million people who want her advice and I'm besieged by nine million people who want to give me advice.

I can assure you that one of the great joys of political life is that you're never short of advice; the problem is, which advice to take.

What I have to say today concerns Canada and Ontario, our understanding of the past and our hopes for the future.

Unlike our neighbours to the south, we have never claimed to live in a melting pot. We have no wish to melt down the richness of our cultural experience.

It can be risky for a politician to try to define Canada. A former federal cabinet minister once told a gathering that Canada was not a melting pot but more like a Christmas cake. He said: "First you put in the fruit, and then you add the nuts, and that's Canada."

My recipe is a little different. Canada it seems to me, is more like a layer cake. Each layer of new Canadians builds on those who preceded them, adding richness, flavour, and spice.

To take in all Canada has to offer, you must cut the cake vertically, not horizontally, and it must be taken in large bites, because all of the layers contribute to its taste.

Each layer—each community—is clear, definable and visible, but still an *integral* part of the whole.

That is what makes Canada.

There is no question that Confederation has served Ontario well. But Ontario has also served Confederation well.

In doing so, we have established some key principles that guide our approach to federalism.

One: When political leadership has been needed, Ontario has been there. When economic sharing has been called for, Ontario has answered. We have made our contributions to the rest of Canada, not grudgingly but willingly.

Two: We ae not blind to everything that is east of the Ottawa River and west of the Lake of the Woods. We recognize that some provinces have ground to make up. But that ground must be made up by helping them to run faster, rather than forcing others to slow down.

Three: Ontario has never shrunk from its obligation to help our sister provinces. That is a commitment we must always remember. We have a duty to remain strong, so we can help make all of Canada strong.

We see our special obligations not as a reason to voice complaint, but to express pride. We see no reason why a province with our natural and human resources cannot achieve and maintain levels of economic growth and job creation that will allow us to occupy our historic role.

These principles and considerations are uppermost in our minds as we assess last month's Premiers' Conference, prepare for the First Ministers' Conference in November, and consider recent proposals to change our trade relationship with the United States.

We must consider the report of the Royal Commission headed by Donald Macdonald. That report is welcomed by all who are concerned about Canada's future. The $20 million it cost will be worth every penny, if it serves as a beginning of concrete discussion; it will not be worth a plugged nickel, if it is merely stashed away in a drawer.

The report can ignite debate, guide debate, and give a context to debate. But it cannot close debate. It is a starting point, not a finishing line.

It has already made a major contribution to discussion of many concerns, including free trade. But even there, one cannot find the answers to the gnawing questions surrounding the issue.

What impact would a change in our trade relationship have on regional development, small and medium-sized businesses, and high-tech industries? How would it affect traditional sectors such as textiles, clothing and footwear, and the communities that depend upon them? What impact would it have on branch plants, and on one-industry towns?

Will the United States want changes to the Auto Pact? There is no agreement that is more important to this province's economic well-being. The auto sector accounts for 115,000 jobs in Ontario. As well, one in five workers in this province depends upon it. Given these profound implications, are there other, preferable, means of enhancing trade with the United States?

These questions are among many that Ontario raised at the Premiers' Conference. We are not the only ones asking them. When it comes to concern about maintaining our political sovereignty and our economic security, Ontario does not stand alone.

Other provinces share many of our concerns. A parliamentary committee found strong pockets of opposition to free trade from coast to coast—not just in the centre. The new Ontario Legislature Committee on the Economy has heard similar views.

Our decision to create that committee was the first of several steps to help formulate a strategy to counter U.S. protectionism and to increase trade.

Just a few days ago, I appointed a special trade adviser.

He is Robert Latimer, a former senior trade official in Ottawa.

On Oct. 21, I will visit Washington to discuss our concerns with officials of the U.S. Administration and members of Congress.

Let there be no attempt to minimize the significance of this issue. It is as important as any we have faced as a nation. We are now in the midst of the most fundamental trade initiative in our history. But the questions we have raised have yet to be answered.

Since the Premiers' Conference, we have been given even greater cause for concern. The Ministry of Industry, Trade and Technology this week forwarded to me data from an economic impact study that indicates a comprehensive free trade pact with Washington would pose serious threats to sectors that provide 270,000 jobs in Ontario. That is 30 per cent of the manufacturing jobs in this province.

Most seriously threatened would be sectors that employ relatively high percentages of women.

This disturbing news underscores warnings by the National Action Committee on the Status of Women that the cost of free trade would be most heavily borne by the group that is already the most disadvantaged in the labour force.

International Trade Minister James Kelleher told me just days ago that free trade could cause "dislocation" of as much as seven per cent of the Canadian work force from their jobs. What does dislocation mean? Lost? Changed? Changed to what?

We cannot take lightly the prospect of 850,000 Canadians losing their present jobs. Will they all be able to find new ones? Will $10-an-hour workers find themselves consigned to $4-an-hour jobs?

That is why we must get past the point of talking about philosophy, and start talking about jobs.

On the issue of free trade, Canada needs a sense of direction. In the words of (baseball star) Yogi Berra: "If you don't know where you are going, chances are you'll wind up someplace else.''

In order to determine where we are going, we must consider where we have come from.

Concerns about free trade has not been restricted to one era, or to one part of the country. As early as the 1840s, British North Americans from all regions expressed fear of becoming hewers of wood and drawers of water.

Soon after Confederation, Prime Minister Sir John A. Macdonald warned that ''no great nation has ever risen whose policy was free trade.''

In the federal Conservative leadership race two years ago, the idea drew considerable opposition.

One of the strongest opponents was Brian Mulroney, who said: ''We will have none of it, not during a leadership campaign *or at any other time.*''

How did debate over free trade take its most recent turn?

There is no denying that the new interest in free trade is a response to real problems. The Americans have been running trade deficits, and they want to slash them. Protectionist sentiment runs high. That is why some 300 protectionist bills have been introduced in Congress.

This threat feeds Canadians' sense of frustration over our inability to generate jobs and economic development across this country. This frustration has given steam to the call for free trade with the United States.

The proposal reflects the need for secure market access. We can agree with that. Ontario has a great deal to lose.

It also reflects a desire for enhanced market access. We can agree with that. Ontario has a great deal to gain.

In fact, on this issue there are a number of points on which we are in full agreement with the federal government. We agree on the need to face our problems. We agree on the need to act swiftly. We agree that our first priority must be efforts in international forums such as GATT (the 1947 General Agreement on Tariffs and Trade).

The question is not: What are Canada's objectives? The question is: How can we best achieve them? Is free trade the best route? The only route? What would we gain? What would we lose?

The argument that free trade is the answer to all of our problems is based on many *assumptions*. It reminds me of a story about a businessman, a locksmith and an economist, shipwrecked on a desert island with nothing but a can of peas and no can opener. The businessman said he could see no way of opening the can. The locksmith said he could not open it without his tools. The economist said he had the solution. "All we have to do," he said, "is *assume* we had a can opener."

To assume the Americans will guarantee and broaden access to their markets without exacting a heavy price while they are running the largest trade deficit in the world is not a leap of faith—it is a leap from reality.

That is why free trade talks, while they may achieve some benefits, cannot provide a quick fix. We cannot hope for miracles or resort to magic. Trade is too vital.

Trade policy is important not just to Canada's economic survival. It is also important to Canada's political survival.

Living next door to the United States is like swimming with a whale. You risk being swallowed alive.

That is why to determine trade policy in the words of Sir Robert Borden (Prime Minister 1911-20), is "to determine not a mere question of markets, but the future destiny of Canada."

Are we prepared to let the United States determine which Canadians are winners and which are losers?

Are we prepared to scrap programs aimed at narrowing regional disparities, especially in Atlantic Canada?

Are we prepared to adhere to U.S. trade embargoes against countries *it* doesn't get along with? Are we prepared to accept conditions that could leave us not only bound, but gagged as well?

Are we prepared to accept constraints on government policies to promote high technology? U.S. major high-technology industries are already well established. And the U.S.

government can provide all the help it wants through military research and development spending.

As far as military technology goes, we buy off the rack. Our high-technology trade deficit with the United States exceeds $6 billion a year. Are we prepared to make our high-tech sector run when it is still learning to crawl? Does it make sense to put all of our microchips on one spin of the roulette wheel?

Our traditional industries also need time to adjust. Marketing boards and price-stabilization programs have made it possible for farmers to put food on the nation's table. Are we prepared to bargain away our traditional breadwinner?

What happens to one-industry towns, for example in Northern Ontario? Do they become no-industry ghost towns?

In the area of financial services, are we prepared to permit U.S. companies to establish subsidiaries in the banking, trust, or life insurance industries?

Above all, are we prepared to accept the *U.S.* version of fair trade? Is it fair to us? Should Quebec be required to stop offering hydro-rate discounts to industry? Should Alberta be required to stop subsidizing its petrochemical industry? There can be no question that Ontario is committed to fairness. But we are also committed to effectiveness.

Even if we negotiate a U.S.-Canada free trade agreement that seems to meet our needs and soothe our fears, are we prepared to assume that what looks good on paper will work well in practice?

In this regard, the U.S. decision to bring the value of its currency down without even informing our federal government is hardly a good omen.

I can understand the desire to have something in writing. As motion-picture producer Samuel Goldwyn once said, an oral agreement isn't worth the paper it's written on. But how far can we venture down that path before it is too late to turn back?

Throughout our discussions regarding this issue, Ontario has asked many questions. The questions are still there. But we also wish to help shape the answers.

Without a clear policy on what we want to get and what we are prepared to give up, without a plan aimed at increased trade with all of our partners, a free trade pact with the United States is not a calculated risk, but a high-risk gamble.

Good neighbours respect each other's front door. Leaving it unlocked all of the time only invites trouble.

This afternoon at three o'clock, Prime Minister Mulroney will be announcing his Government's initiatives.

That is why I would like to take this opportunity to put forward a seven-point agenda to narrow Canada's risks and broaden our prospects in any talks with the Americans. I would hope that other provinces share their concerns in a similar manner.

First, at this time, we believe that some areas must be excluded from formal discussions.

Obviously, all areas that could restrict our political or cultural autonomy or social programs cannot be put up for negotiation. As well, we would keep off the table all items that affect our ability to narrow regional disparities. We would also exclude—at least, for the time being—research and development programs, and agriculture. We also believe it is necessary to leave safeguards for the Canadian auto industry off the bargaining table, given that sector's importance to the people of our province. We feel the financial-services sector should be left aside, pending the next GATT round.

Second, we feel it is important that Canada maintain its commitment to GATT as the prime vehicle for reducing trade barriers. We must also keep in mind the importance of increased trade with other countries such as those of the Pacific Rim.

Third, we believe Canada must insist that any proposal allow Canadians time to narrow the enormous gap in industrial capacity. Any proposal should see Canadian sectors phased in only after they have been given sufficient time to adjust.

Fourth, we must recognize it is well past time that all provinces joined in a commitment to reducing trade barriers between provinces. Ontario is the only province that does not employ an explicit ‘‘our-province-first’’ preference in purchasing and contracts. Canada cannot exist as a row of ten fortresses.

We believe those internal trade walls must come down for a significant period prior to any change in our trade relationship with the United States. We must give east-west trade an opportunity to take hold first.

Fifth, we must couple any changes in our trade rules with a new national commitment to enhance our ability to compete in world markets.

Sixth, we urge the Federal Government to immediately initiate plans aimed at identifying jobs that may be displaced.

Finally, let me say this. I know from talking to all of the other premiers that even the proponents have reservations about specific areas. It is imperative, therefore, that all provinces be consulted at every stage of discussions and negotiations, and have a say.

We believe it is vital that all Canadians be given the information and opportunity needed to form and express a knowledgeable viewpoint. All of the facts must be on the table.

(French statesman Georges) Clemenceau once said that war was too important to be left to generals. The free trade issue is too important to be left strictly to politicians. We all share in our nation’s destiny. We should all share in shaping it.

We do not expect benefits without costs. But there are some costs we are not prepared to pay.

We are not prepared to trade away Canada’s soul. We are not prepared to become junior partners in a U.S.-based North America Inc. We are not prepared to put Canada’s entire future on the bargaining table.

Just as in (Prime Minister) Robert Borden’s day, the issues we are dealing with will shape the future destiny of this country. Securing the kind of future we want will require a tough fight. But Canada is worth fighting for.

The appreciation of the audience was expressed by James B. Pitblado, Chairman of Dominion Securities Pitfield Ltd. and President of the Canadian Club of Toronto.

Dr. Allan M. Lansing, M.D.

Chairman and Director,
Humana Heart Institute International

HEART REPLACEMENT — PROGRESS & PROBLEMS

October 3, 1985

The President
Harry T. Seymour, Chairman

Mr. Seymour

Distinguished guests, members, and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today Dr. Allan M. Lansing, Chairman and Director, Humana Heart Institute International.

Our guest speaker attracted worldwide attention last November 25, when his team of cardiovascular surgeons at the Humana Heart Institute International implanted the Jarvik-7 artificial heart in the chest of William J. Schroeder, who was suffering from terminal heart disease.

The critics immediately challenged the need for the operation and the motivation behind Humana Inc., a public company whose shares trade on the New York Stock Exchange, and its agreement with the institute to finance up to 100 of these artificial-heart implants.

Dr. Rollo May in his book entitled The Courage to Create addressed the critics of change as follows: ". . .To live into the future means to leap into the unknown, and this requires a degree of courage for which there is no immediate precedent and which few people realize."

Humana Inc. responded to the critics and the problems they raised, be they ethical, technical, social or financial, in its November 30, 1984, quarterly report. Subsequent developments helped to further negate the critics' position.

On March 15, 1985, *The Toronto Star* reported that: ". . .An artificial-heart program is planned at St. Michael's Hospital for patients with severe heart disease. . .The University of Toronto has approved the hospital as the site of the program. . .The plan hinges on approval from Ottawa for the use of the artificial-heart device."

On March 23, 1985, *The New York Times* reported that ". . .Doctors are ready to implant a Penn State artificial heart at Hershey Medical Centre."

Then, on April 10, *The Globe and Mail* reported that ". . .Doctors at Karolinska hospital in Stockholm have performed the first artificial-heart implant outside the United States."

Who is this pioneer of artificial-heart transplants? Born September 12, 1929, in St. Catharines, Ont., Allan Lansing graduated from the University of Western Ontario *summa cum laude* with a Doctor of Medicine degree in 1953 and earned a doctorate in physiology four years later.

After he completed his internship at Victoria Hospital (in London, Ont.) specializing in surgery, he went to the United States to pursue his interests in cardiovascular and open-heart surgery. After positions of increasing responsibility at the University of Illinois, the Houston Medical Centre and the Children's Hospital in Boston, Dr. Lansing returned to London "to stay" in 1961.

His restless, pioneering spirit, however, could not be contained. In 1963, he was invited to move to Louisville, Ky., where he has since made a name for himself with several firsts in the world of innovative surgical techniques. Seven years ago, he left the University of Louisville medical faculty and built his own cardiac-surgical practice in Louisville.

Dr. and Mrs. Lansing—his wife is also a University of Western Ontario graduate—have three children: Anne, a doctor; Peter, a landscape gardener; and Michele, a registered nurse who operated the heart-lung machine and assisted her father in the implant operations.

Ladies and gentlemen, I am pleased to introduce Dr. Allan Lansing, a man of outstanding academic achievements, a man of uncompromising ideals, and a man of vision who has had "the courage to create"; who will address us on the subject, "Heart Replacement—Progress & Problems."

Allan Lansing

I thank you very much for that introduction. I hardly recognized myself and you should not believe all the things Mr. Seymour said about me. I wasn't restless, I just couldn't find anything to do in Canada at that time and an opportunity came to go south, which my wife and I took with great regret. I was blessed because I had a fine education in Canada, first in the secondary school system, and then at the University of Western Ontario, and that's what has made it possible for me to achieve what I have.

When I was invited to Louisville, I didn't even know where it was. Donna at least knew that the Kentucky Derby was run there, but I didn't know that either. However, the people were very friendly and it looked as if there was an opportunity. So we moved to Louisville and I worked with the university for 15 years, and built up a private practice at the same time, so that, after 20 years, I had reached the place where our team was the best in the neighbourhood. About three years ago, two of the founders of Humana, Wendell Cherry and David Jones, came to me and said:

"Wouldn't you consider moving from the Medical Centre out to Audubon Hospital and work in our hospital? We have a Centres of Excellence Program in our hospitals around the country and, if you came there to work, we would support your research and education and help you to establish a Centre of Excellence." I replied, "No, I think we're already a centre of excellence and I'm really not interested."

Well, over the course of the next few months, I started to think some more about the idea. I started to look at Humana and see that it had enormous resources—administrative, financial and otherwise—and we, as a group of surgeons and cardiologists, had great medical skills. Maybe we could put these two together and build something even better; something even bigger than a Centre of Excellence, something that would be internationally known. So I talked to them some more and finally, with regret and concern, moved our team to Audubon Hospital.

The great concern was about being involved with a for-profit hospital organization, but it meant the opportunity to establish an international centre that would be on the leading edge of cardiology, cardiovascular surgery, research and education.

Not only did we want it to be on the leading edge, but we wanted to maintain what had been characteristic of our particular type of medical practice—that is, the care, the concern for the patient and the family, what I call the "personal touch"; touching the patient, physically, emotionally, looking at him, listening to him, caring about what's happening to the family. In other words, helping him through a trying time. If we did this, it would not only put us on the leading edge and make it internationally known, but at the same time maintain touch and caring, we would have something special. So I said:

"We'll try, but it's going to take ten years."

It has been two years today since we started on the Humana Heart Institute International.

You all know what's gone on in that time. We're best known for the heart-replacement program, which involves two aspects: both transplantation of human hearts and the mechanical-heart program.

As you know, heart transplants started back in 1967 and many centres got on the bandwagon. But the patients all died and the programs were abandoned.

However, thanks to research that continued at Stanford, new progress was made and now it's a very successful procedure. Everybody's adopting it again. Eighty per cent of the patients are alive a year later. The results are improving all the time, because of endomyocardial biopsy and cyclosporine, as well as further understanding of the rejection process.

It can be an ideal answer. We've found that people who are dying, who get a new heart—a new human heart—can live, can enjoy life, can become productive. So certainly, heart transplantation is a wonderful form of therapy.

But it has problems. First of all, there aren't enough donor hearts to go around and, with more and more centres doing heart transplantation, there are going to be even fewer hearts for any one centre.

Secondly, there's a preservation-time problem. That means that you have to get that heart out and reimplanted within four to five hours. Now, we may get it up to 24 hours, but still you can't go very far afield to get a heart. And, finally, it's expensive. The cost is not only the $75,000-$100,000 to do the transplant, but $12,000-$15,000 per year to follow the patient afterwards.

So, transplants are great, but there are problems: donor availability, time, and cost. We know they work. We know there's a need for heart replacement—where do we go? Well, we have to go one of two places. We either have to go to xenografts—that is, we have to learn how to use animal tissues, and we're a long way from that—or we have to go to a mechanical replacement. The heart is a pump, like many other kinds of pump. Why can't we replace it?

Now this program is not new. The first mechanical heart was implanted in an animal by Dr. Kolff at the Cleveland Clinic in 1957, almost 30 years ago. He's been working on it ever since; he's the "father" of the mechanical heart. And he, with the group at Utah, developed it to the present stage. They're the leaders.

But there are still many problems. When we implanted this heart, we ran into a few of them. I ran into one this morning when a national television host immediately got after me about the things that everybody is concerned about, and that's what I'd like to spend the next few minutes discussing: the cost, the ethical problems, and the involvement of a for-profit hospital corporation in this research.

First of all, cost. It's very easy to say that Humana is going to guarantee the cost of the first hundred implants; it is going to pay for it. The patient pays nothing, the family pays nothing, the doctors give their services. Humana picks up the total cost, not only of the operation and of the hospital care, but it is paying for the cost of the patient and the family living in the special apartment across the street, renovated with air compressors, monitoring lines and computer access. It pays for the specially equipped van when the patient goes off to a ball game, fishing, or to visit his family in Jasper. So the cost is borne by Humana, and it's an enormous cost, let me tell you.

That's all very well, but what about the future? What happens if it's done somewhere else? Or what happens after the hundred are done? Who's going to pay then? The estimate from the University of Utah was $250,000 for Barney Clarke. It's much more than that, I'm sure, for William Schroeder, particularly with the continual ongoing costs.

Are insurance companies going to pick it up? No, because that will raise their premiums, and they won't be able to sell any policies. Is the U.S. Federal Government going to pick it up? It has already had experience with the End-Stage Renal Disease Program and the tremendous costs involved there. The legislators are very unlikely to take another millstone and put it around their necks.

Are we going to have to raise money privately from donors as we do now to pay for liver transplants and bone-marrow transplants? We may. However, our hope is that, with success, with time, we can lower the cost and make it affordable.

But this whole problem of cost has brought up some questions that I raised this morning in talking at Mount Sinai Hospital—age-old problems.

- How much is a single human life worth in dollars and cents, be they Canadian or American dollars?
- How much should society commit from its general funds for the welfare of a few individual lives?
- And, are we getting to the point where certain procedures for saving lives are thought to be too expensive to use in any individual case?

These are questions for which we do not have an answer.

My approach is, we have to wait and see. We do not know if the heart is going to work. If it doesn't work, if it doesn't give longer life, if it doesn't give improved quality of life, it's not going to be used anyway.

If it *does* work and it's too expensive, we'll have to find a way to make it cheaper. There's no doubt in my mind that Toyota or Mercedes or Fiat or General Motors (car manufacturers) will be able to make one cheaper and we'll learn how to put it in more easily. If it works, we'll make it affordable.

The next problems were ethical. The first question was, "Why don't you perfect this in animals before you put it in any humans?" Well, hundreds of animal experiments were done; the mechanical heart was put in calves and sheep over and over and over again. The technique was perfected, the power supply was improved, the valves were tested and we got to the point where we weren't learning anything more. And we had to say that people were dying more, and it was time to try the mechanical heart in humans to see if it would help them.

As a result of this, we learned some things that we did not know from animal experiments. We didn't have bleeding problems in animals because we were dealing with a normal aorta, as opposed to a diseased aorta, and the vigorous motion of the mechanical heart and its drive system pulled on the suture lines and produced the leaks and bleeding.

We learned we had to buttress, we had to support those areas of the suture line, a manoeuvre that wasn't needed in the animals. We didn't have the blood clots and the emboli in the animals as we do in the humans. So we had to adjust the anti-coagulation. We didn't have the hemolysis, the destruction of the red cells; the calves' blood seemed to stand this battering by the pump much better than humans'.

As a result, we've modified the drive system so it's more gentle, so that, instead of slamming the valves shut, we close them more gently. As a result, the blood count is rising and the people are stronger and feel better because they aren't so anemic. We could not find these things out in animals, so we have to try in humans eventually.

Well, if you're going to try such an experimental procedure, why aren't you doing it at an academic institution? Why isn't it at the University of Toronto, rather than in a for-profit hospital? Well, I think this is a perfect example of how things have to be done.

The mechanical-heart program was funded by the U.S. Federal Government through the National Heart Lung and Blood Institute for about 15 years, and they spent money working on power supplies and valves and pumping chambers and materials. After that, they made a decision, like the ones we were just talking about, that there was no future; it cost too much, it had too little to offer. It was a decision based on the best use of general resources. So they stopped funding artificial hearts.

When did they stop? Right at the time that Barney Clarke received the implant. The University of Utah had no more funds to look after Barney Clarke, the first human to have a permanent artificial heart; they had to go out and raise money in the community. They had no funds for a second one. The whole program was dead in the water.

At that stage, a private corporation said:

"We believe in the people. We will support it. We will fund this as long as you are making scientific progress."

And they leave it up to us to decide. If we're not satisfied we're making some progress, we switch to another heart or we stop altogether until a new promising development occurs. That's our responsibility, but Humana says it will back it. As a result, private industry has supported a program that the Federal Government, quite rightfully, gave up as too expensive.

It's exactly the way things have to be done and it's the way you're going to have to do things in Canada as well. You can't expect the Government to fund everything; to support all research projects; to be able to pick out which wild ideas to fund; they have to support the general good. So I think it's an excellent example that should be carefully studied and considered.

The last question was that of the publicity involved. It was said that this was a circus; it was done entirely for the benefit of Humana to get advertising, we didn't have to give all this information out to the press and public; it was not necessary, it was done badly, it should have been done more discreetly, and it should have been done quietly and published later, in a scientific journal such as the *New England Journal of Medicine*.

I tell you that course was absolutely impossible. There was no way that we were going to keep these national and international correspondents from finding out what was going on and from reporting on it—that's their job. The public wanted to know and it was going to find out. So Humana made the decision that, instead of trying to fight the media people off, it would put them in a convention centre seven miles from the hospital; give them everything—all the telephones, all the videotape, black-and-white and colour pictures, and regular medical updates so that they had information coming out their ears.

And the result was that the press never went to the hospital. Reporters never disturbed the patient, the families, the nurses, or any other patient in the hospital. They stayed right down in the Convention Centre and they did a great job.

During the first implant, they stayed there for two months; the second one, they were there for twelve days; and, for the third one, they were there for three days. They may not even come next time. Who knows?

But the publicity was absolutely unavoidable. It had to be handled. For instance, Dr. DeVries tells about an episode in Utah when Barney Clarke was in the intensive-care unit. A laundry cart was wheeled into the intensive-care unit and out of it leaped a little Japanese reporter with a camera, who started taking pictures of everybody in the ICU. These appeared on the front page in Tokyo a day later—pictures supposedly of Barney Clarke.

A university photographer, who took some pictures in the operating room, was offered $50,000 by a magazine for any two pictures. He only made $10,000 a year, but he couldn't sell the pictures or he'd lose his job. That's the kind of temptation that exists, if you don't deal with it.

You've got to recognize the press has a job to do and you had better help it to do it well. That is exactly what was done.

Well, I have talked too long, but I have one other observation that I want to make because of all the questions that I got this morning on national television. I have been very fortunate, as a physician, to work in almost every kind of hospital—a VA hospital, a private hospital, and in a for-profit hospital. So I have experienced all of them. Each system has its advantages and each has its disadvantages.

I can say, I do not work for Humana; I receive not one dime from it. I work in a Humana hospital, Humana provides the facilities, but it doesn't pay me a penny. It doesn't pay Dr. DeVries anything either; he works for me. We are independent practitioners working in that hospital.

I can honestly say that Humana has not cut one corner. It has done everything we've asked to improve the quality of the care, the equipment, materials, the staffing or whatever we thought was best for the patient. We do not turn away a single patient, regardless of ability to pay.

When I was discussing a possible move to a Humana hospital, I told Humana that, for years, if a doctor called and wanted to send me a patient and he said: "Mrs. Jones is sixty, she has a little farm, but she has no money and she has no insurance," I'd say: "Fine, send her in." The hospital would pick up the tab, we'd work for nothing, and she'd get looked after regardless.

When I went with Humana I said: "That's the way I have worked all my life," and Humana said: "Fine, we accept that. We'll go along with it."

You probably don't know about some other programs that this hospital corporation supports. Humana pays for all the care of indigent patients in the entire Jefferson County. It runs the medical school hospital, which was losing $4 million a year before Humana took it over. It is now making $1 million a year, of which the university gets $250,000 and Humana pays taxes on the $750,000. The university staff has the best equipment around; it is much happier.

It can be done. There is a place for every system. None is perfect, but this system has provided the resources for us to do this kind of highly experimental and very expensive work. It has given us the chance to decide on the programs and to direct them, and given us the opportunity to do something that we could never have done in any other way. It could never have been approved or funded by a Federal Government committee. I hope you will look at this role of private business support as a possible model for future consideration in Canada.

In summary, I've been extremely fortunate. I had a fantastic education here in Canada, which gave me my start. I've had the opportunity to work in every kind of hospital and medical system in the world, and I have an opportunity now to build an international institute using private resources on the basis of no contract, no money, no lawyers—just a handshake with David Jones, the Chief Executive Officer of Humana. That's all we have.

In two years, we've made great progress. There have been many questions raised—ethical, legal costs, and others—but the experience has all been worth it.

Finally, I am also particularly grateful for my Canadian heritage, for my background and for the honour that you paid me in asking me to come here today.

The appreciation of the audience was expressed by Dr. Harold Cranfield, a Past President of the Club.

The Hon. John Black Aird, O.C.,Q.C. and Mrs. Aird

TESTIMONIAL LUNCHEON

October 6, 1985

At a meeting of the Loyal Societies

Chairman
MGen. B.J. Legge, C.M.M., K.St.J., E.D., C.D., Q.C.
Colonel Commandant, The Logistics

Toast to Loyal Societies

Harry T. Seymour

Response to Toast to Loyal Societies.

Nola Susan Crewe

Salute to Mrs. John Aird

John W. Griffin

Toast to Captain (N) the Hon. John Aird and Mrs. Aird

Catherine Charlton

Response to Toast to Captain (N) the Hon. John Aird and Mrs. Aird

The Hon. John Black Aird

Thank you very much, General Legge, and, yes, I will try to respond to Catherine Charlton's toast. It's been an unusual day for Jane and me, because (Archdeacon) Bob Dann this morning at St. Paul's said:

"You know, Your Honour, you're not used to running third, are you?"

And I said:

"No, sir, I'm really not."

He said:

"Well, you had 1,800 people here this morning for the Thanksgiving service. His Holiness the Pope outdrew you, and so did the Archbishop of Centerbury, and you've come third."

I must say that this morning was an extraordinary experience for us, as, of course, this is here. I don't know how many of you have had lunch at 3:12 in the afternoon in the Royal York Hotel on Sunday afternoon when the Blue Jays are playing.

When we come here today, we do so with the greatest of pride when we look out at the audience of our friends. I truly mean that, because it's rather ordinary to go to a gathering and look out, and perhaps you don't get the names right with the various titles and so on.

But, when I look out here, I have some understanding of what this province is about, indeed what this country is about. And when you look at the back of the program and when you see the various units and societies that are represented here, you do have some understanding of, to use a popular phrase, the engines of motivation and so on.

But that's not really what it's all about. What it's about is that the people here today are the ones who support the things that matter in Western society. And I think that is a great thing to happen in Toronto and in Ontario and indeed in Canada. Because, you know, the question that I very often ask people is simply this: Is there any place in the world you would rather be than right here, right now?

We are fortunate to have a system built upon trust and loyalty and on a constitutional system that does establish the Crown.

But could I say *this*, to this particular group? When you drink a toast to Her Majesty the Queen of Canada, it is terribly important to understand, I think, how simply marvellous this lady has been in that role. I think you should understand that the motivation certainly for me and Jane and—could I also say—for my distinguished successor, will be exactly that: effective performance is still the bottom line in the everyday activities of all of us.

But in Lieutenant Governor's activities, I always had to think about saying: "I now bring you greetings on behalf of Her Majesty the Queen of Canada." And I never really thought about it much before I became Lieutenant Governor. I really had not understood what I was trying to do as part of a system.

That's what I've learned, but I've only learned it through the assistance of nearly everybody in this room. It would be wrong of me to name anyone or any place or any position as to what they have meant to Jane and me as we've tried to do this rather difficult job in the last five years. I call it a job, some call it a position.

I call it a question of balance. I call it a question of representing Her Majesty the Queen of Canada and through that representation serving the people of Ontario.

And I think truly that, when you come to the Royal York Hotel—and this may sound strange to you and perhaps it's self-serving and perhaps it's because we enjoyed rather a good lunch—but it's a little like coming home as this morning was for Jane and me when we went with our family to St. Paul's which is home to us, and when you come to the Royal York Hotel and quite apart from the name and so on.

It is something that I think we understand and truly do appreciate so, when we come here today to acknowledge with great gratitude what you have meant to us. Everybody in this room has meant something rather special to us and it's a day of thanksgiving.

Our thanks is really to you. Not from you to us, because I don't say you've made it easy. Because it has not been easy, it's been a very fulfilling and rewarding five years and five days.

But I suppose that, when we look back on our lifetime, we will think about it with some degree of emotion but also with some degree of very real gratitude to the strengths of our society. And could I say to this group that you are the strength of Ontario? Very much the strength of Ontario. So when we come here this afternoon to be honoured, could I say to you, please go away from here understanding that what you are doing for all of us is terribly important. We salute you all.

MGen. Legge

It only remains for me to announce that a gift will be made for this audience in the names of the Honourable and Mrs. John Aird towards the fund for an aquatic pool in Variety Village, as the Airds have requested.

Pierre Lortie

Chairman and Chief Executive Officer,
Provigo Inc

FREE TRADE: CORNERSTONE OF A NEW NATIONAL POLICY

October 10, 1985

The President
Harry T. Seymour, Chairman

Mr. Seymour

Distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today Pierre Lortie, Chairman and Chief Executive Officer, Provigo Inc.

When Pierre Lortie, 34, became the seventh and youngest-ever president of the 107-year-old Montreal Stock Exchange—later renamed the Montreal Exchange—in May 1981, he inherited an institution whose very existence was in doubt.

Undaunted by the exodus of banks and firms following the election of the Parti Quebecois government in November 1976, Lortie embarked upon his announced goal of making the Montreal Exchange "the dominant Exchange in Canada."

He introduced a series of new financial products from gold options to lumber futures. He linked the Exchange by computer with other world markets to speed up industrial trading.

The result? In 1984, the Montreal Exchange accounted for nearly 22 per cent of the combined value of shares traded on the Toronto and Montreal Exchanges, up from about 14 per cent in 1983. A major success story indeed, when you consider that the Exchange's very existence was in doubt when Lortie assumed the helm in May 1981.

Why, then, did we read in the April 19, 1985, issue of *The Financial Times of Canada*: "Does Lortie have the right stuff to run Provigo?" "Appointment ruffles feathers"?

Did he need a new challenge? Was the offer of Chairman and Chief Executive Officer of Provigo, Canada's second-largest grocery chain, too attractive to ignore? Speculation is rife that it was a combination of both!

Not content to rest on his laurels, Pierre Lortie spent a hectic summer ensuring Provigo was successful in its bid to acquire a substantial voting interest—46.4 per cent—in Consumers Distributing Co. Ltd., North America's third-largest catalogue-showroom retailer.

Who is "Le Grand Dieu Gris" (The Great Grey God), as his Montreal Exchange employees called him? Pierre Lortie was born in Giffard, Que., in 1947. He graduated with a Bachelor of Applied Science degree in engineering physics from Laval University in 1970; and a Licence en Sciences Economiques Appliquées, Institut d'Administration et de Gestion, Université de Louvain (Belgium); and a Master of Business Administration degree from the University of Chicago in 1974.

He held the rank of major, commanding officer, 10th Field Squadron, Royal Canadian Engineers, 1968-70.

His early business career included two years as executive assistant to Raymond Garneau, then Quebec Minister of Finance; two years at the Montreal Exchange, in increasing positions of responsibility in the area of development; and four years as a senior partner with Secor Inc., a Montreal economics research group that specializes in developing corporate, financial, and marketing strategies.

A past president of the 5,500-member Chambre de Commerce du District de Montréal, Pierre Lortie represents the new corportate elite in Quebec who have replaced the departed anglophone businessmen in Montreal since 1976. Nowhere is this trend more evident than at the Montreal Exchange, where Lortie was preceded by Michel Belanger and

Robert Demers at what had been historically a predominantly anglophone institution.

Ladies and gentlemen, it is my great pleasure to introduce Pierre Lortie, who will address us on the subject. . .‘‘Free Trade: Cornerstone of a New National Policy.’’

Pierre Lortie

I thank you very much for this invitation to address the Empire Club. It is a singular honour. Accepting your invitation was the easy part; more difficult was determining the subject of my remarks. Last week was ‘‘La semaine francophone’’ in Toronto. Therefore, it might have been proper to review the tremendous progress made throughout Canada since the Laurendeau-Dunton Royal Commission Report and the hopes and aspirations of my fellow French-speaking Canadians. However, in the end, I concluded it was preferable to address a subject of the utmost importance to all Canadians. The route we will choose on this issue will shape the future of Canada much in the same manner that (Sir John A.) Macdonald's National Policy of 1879 structured the Canadian economy. This issue is the establishment of a free trade area with the United States.

Canada is at a critical juncture. Four times in the past 150 years, this nation has grappled with the issue of free trade with the United States. Each time, the resolution was the same. Canada decided to protect its domestic industry by erecting or maintaining trade barriers between the U.S. and Canada. Whether these decisions were good or bad is best left to economic historians. Suffice it to say that, from our 1985 perspective, the country our forefathers left us is not in such a bad shape.

But times have changed. Even today, according to many observers, Canada's economy is resource-driven. Economists have developed theoretical arguments to justify the protection of infant industries. Such arguments have been made in the past with respect to our own manufacturing sector, which, on the whole, has traditionally been protected and more domestically oriented than export oriented.

However, nobody can argue seriously that the Canada of tomorrow can remain resource-driven and insure the maintenance of a superior quality of life for Canadians. If our economic base is to move away from commodities, it must rely on a larger domestic market to establish the competitiveness of its manufacturing sector. Canada is at this juncture. Establishing a free trade area with the United States is a unique window of opportunity.

It is important to fully understand our international trade predicament. Roughly, two thirds of our total exports is commodities or mildly differentiated semi-finished goods, with low technological content (although technology may have been extensively used in their capital–intensive production process). These exports are quite different from our imports, which, by and large, are made up of finished manufactured goods.

The well-being of Canadians is significantly affected by our terms of trade. Terms of trade represent the average price of our exports relative to that of our imports. In a nutshell, the better the terms of trade, the more value a country will get for a given basket of exports. Given that our exports are dominated by commodity-type goods, we must squarely face the question of what is most likely to happen to Canada's terms of trade in the coming years.

International commodity markets are tough markets. Firstly, sellers are mainly price takers, despite the short-term illusions of some exporters who mistakenly think that calling price changes is calling the shots. Secondly, commodity markets are subject to significant fluctuations because supply and demand are only loosely related. Thirdly, most of them are not high-growth markets. Indeed, in volume terms, we are witnessing a decreasing relative importance of trade in primary products, a trend that began early in the present century and should continue in the future because it mainly reflects the fact that food and primary materials have low income elasticities.

But what should be most disturbing to us about these markets is that they point to a major deterioration in our terms of trade in the coming years. In real terms, world prices for major commodities and semi-finished goods are most likely to continue to decline relative to manufactured goods and services.

Several cogent reasons suggest that commodity prices will soften in the future, as developing countries continue to assault world commodity markets in the same manner they have assaulted the labour-intensive assembly-line markets in the last twenty years. Diffusion of agricultural technology, geological technology, forest-management techniques and mining technologies, as well as major investments in infrastructures and megaprojects, will lead to an increase in the potential of the developing world to supply the industrial countries with basic materials. Thus, the markets for our copper, our iron ore, our pulp and paper, our aluminum, our lumber, and our wheat will increasingly be undermined.

Developing countries can rely on a young generation of specialists who have learned our technology in Canada as foreign students and have gone back home to apply their findings. Moreover, the diffusion of such technologies will be accelerated by the integration of our economies and the deployment of large firms on a world basis. Thus, we should not underestimate the likelihood that, in the coming years, supply will outstrip demand at constant prices and that we shall be faced with an acceleration in the deterioration of our terms of trade. In this regard, it is useful to note that the Canadian share of world markets in some of these commodities and semi-finished products began to decline during the 1970s.

How Canada should respond to this deterioration in our terms of trade is a fundamental question, and, in my opinion, one of the most crucial we have to face in this decade.

I do not believe that the so-called "obvious" solutions will work. For instance, I seriously doubt that, in the present context, attempting to transform more of our resources in Canada will produce significant results. Most of these commodities are transformed by industries that are market-driven. It is wishful thinking to hope that we will be able to do much to restructure the processes by which commodities are gradually transformed into finished goods as they get closer to their ultimate consumers. The market system provides sufficient incentive to make it happen if it made sense. That it has not done so is a strong indication that it does not make economic sense. In this regard, there is no question that the small size of the Canadian economy places us at a serious disadvantage.

Import-substitution policies are ineffectual, at least on a large-scale basis. Here again, our domestic markets are small in most, although not all, cases. Therefore, the potential gains from import-substitution policies are minimal.

When everything is considered, we are bound to conclude that, to maintain our balance of trade in reasonable shape, new exports will have to be generated. As our terms of trade in commodity markets (broadly defined) deteriorate, we shall have to compensate by increased exports of finished goods and services. If we do not do so, the result of this shift in our terms of trade will be an absolute loss of advantage and a decline in our earnings from exports. The net result will be a net decline in the standard of living of Canadians.

Larger exports of finished goods will result from the increased competitiveness of our manufacturing and services sectors. But a significant improvement in competitiveness can only be achieved by a structural change in the Canadian competitive environment, which will pressure Canadian firms to adapt, to become more efficient, and more competitive on a global scale.

Those of you familiar with the so-called Japanese miracle know that Japan's tremendous successes in export markets are due mostly to the highly competitive nature of Japanese firms, a characteristic nurtured and maintained in their own domestic market—probably the most competitive in the world.

How can we bring about these major changes in the way in which, and the environment in which, Canadian firms operate? The Macdonald Commission, joining the majority of Canadian economists and a growing number of business leaders, has concluded that more open markets with the U.S. is the best way to achieve the objective of increasing our share of world markets in manufactured goods and services. A broader domestic market, a North American one, would create conditions that would improve the competitiveness of our productive sector and greatly enhance our capacity to export manufactured goods and services on a worldwide basis.

Needless to say, such a historic abandonment of one of the pillars of the ''National Policy'' creates a certain degree of uneasiness for many Canadians. By any standard, the U.S. economy is very large. Establishing a free trade area with the U.S. raises the question of our vulnerability in such an arrangement. It would also represent a fundamental redirection of our economic policies; therefore, one should expect structural changes to result. Will those changes be for the better or for the worse? These questions are legitimate and deserve well-thought-out answers. Let's hope that, soon in the process, several myths that cloud the present debate will be debunked.

- *Direct foreign investments should increase, not decrease*— Most Canadians have come to realize that, generally, direct foreign investments constitute a plus to our economy and society.

It is also generally assumed that a substantial portion of U.S. direct investments in the manufacturing sector has been made in Canada to circumvent the tariff and non-tariff barriers. Consequently, it is argued, creation of a free trade area would remove the incentive to establish manufacturing operations in Canada and, therefore, lead to less direct foreign investment with a concomitant effect on growth and job creation. This line of reasoning is intuitively appealing;

yet, it is incorrect because it does not recognize the characteristics of modern-day trade in manufactured goods.

Closer examination of world trade in manufactured goods reveals that the majority is intracorporate trade—that is, sales by a subsidiary in a country to another subsidiary in another country and vice versa. This is also a major characteristic of Canada-U.S. trade in manufactured goods. According to a recent report of the Economic Council, the average share of intracorporate trade in total Canada-U.S. trade is 81 per cent for exports and 79 per cent for imports.

Thus, it is fair to expect that, as a result of the establishment of a free trade area with the United States, corporations in both countries will modify their strategic outlook and plan the deployment of their facilities and operations to take advantage of both markets. In the process, Canada will gain both from greater investments and from the fact that our production facilities will gradually evolve to the optimal size and achieve significant economies of scale. Moreover, we cannot discard the fact that Canada becomes a better place to invest in the eyes of foreigners, once a free trade area is established.

Some may doubt the validity of my comments. To them, I would simply say: Look at what happened in the European Common Market countries, look at what happened in the countries that formed the European Free Trade Area (EFTA). The evidence is overwhelming. Moreover, the persistence of many foreign firms in industries in which the tariff with the U.S. is now zero shows that the mass-exodus-of-direct-investments argument does not rest on a solid basis.

- *The threat from contingent protection actions on the part of the U.S.*—In recent years, many have found that the U.S. was "trigger-happy" when it came to the use of contingent protection measures. This phenomenon is taken by many as evidence of the illusion of attempting to negotiate an FTA with the United States. They argue that the problem is intractable, and that it will be impossible to agree on a mechanism to deal with legitimate problems.

This objection is important because it goes to the very heart of one of the major arguments in favour of an FTA: the risk of U.S. import restrictions or duties significantly increases the risk to investment in new production facilities in Canada and, therefore, establishment of a free trade area would remove this uncertainty and improve investment opportunities in Canada.

In this regard, there exists substantial evidence that much of the dumping that now occurs between Canada and the United States is a result of companies in one country attempting to hurdle tariff barriers in the other to sell in the other country. Thus, one should expect that the incidence of dumping would decline if tariff barriers were removed, in contrast to the present trend of increasingly resorting to contingent protection.

Here again the lessons of the EFTA experience are worthy of note: during the 14 years it existed, dumping duties were never applied by any of the member countries to intra-EFTA trade, even though such recourse was expressly provided for in the Stockholm Convention.

- *The removal of barriers to trade across Canada*—We often hear the following argument: How can we argue for free trade with the U.S. when we do not even have it among the provinces? The observation is well taken. However, it is also self-serving and shortsighted when used as an argument to postpone negotiations with the U.S. until we have eradicated these barriers within our domestic market.

Such an approach is doomed to failure. It is doomed to fail for the same reason sectoral trade agreements cannot be concluded with the U.S., leaving us to pursue a comprehensive trade agreement. No province, no country, can win in each and every sector as a result of the elimination of trade barriers. To reach an agreement, there must exist trade-offs. The interprovincial barriers to trade are limited to too few sectors to give rise to enough trade-off opportunities. Access to a larger market is required to allow for the necessary restructuring. This is why the fairest chance we have of removing interprovincial barriers lies in the conclusion of an FTA with the United States and not the reverse.

There is no such thing as a free lunch. To reap benefits, one has to invest. The long-term benefits of free trade with our southern neighbour rest on immediate investments. In a market system, those who will bear the costs are not necessarily those who will reap the benefits. Thus, there will be losers and winners. Some industries will not adapt, some corporations will be too weak to compete.

But let's put everything in perspective. The matter of the cost to the Canadian economy has been thoroughly analysed over the years, and, in particular, by the Macdonald Commission. True to a dark streak in our national character, we spend more time worrying about the short-term burden of the investment than about how we will enjoy the riches of the outcome.

The Macdonald Commission has found that these short-run costs are outweighed by the benefits by a ratio that can vary between 25 to 1 to 80 to 1, depending on whether you are a pessimist or an optimist. This means $25 to $80 of benefits for each dollar of cost. Even if we allow for unforeseen events, all cost-benefit analyses of free trade with the United States indicate overwhelmingly that "long-term gains. . . heavily outweigh short-term adjustment costs."

Who are the business executives, who are the elected officials, who will publicly affirm that, to keep an extra dollar in their pocket, they are ready to impose a burden ranging from $25 to $80 each on the rest of us?

Naturally, because the short-run costs are borne by few, whereas the long-term benefits are spread among many, the howls of protest are louder than the expressions of contentment. But the over-all benefits are so important that any reasonable citizen is bound to go beyond headlines and self-serving arguments. Moreover, it is probably not out of order to indicate that recent studies have shown that the short-term effect of free trade with the United States would be a 5.5-per-cent *increase* in employment (due mainly to trade-diverting effects).

One of the major consequences of the last recession on the Canadian psyche was a certain recognition of the virtues of economic growth. The attitude of the majority of the Canadian people is clearly pro-growth. Even if we do not know much with confidence about how to obtain more economic growth, we have learned a few lessons. For instance, we have learned that great results should not be expected from small measures.

Probably the most important of all lessons about growth is that the difference between three-per-cent growth and four-per-cent growth is not one per cent but $33^1/_3$ per cent. Structural changes are required to maintain such an improved performance on a consistent basis over several years. And this is exactly what one should expect from a free-trade agreement with the U.S., the impact of which the Macdonald Commission has evaluated to be a one-time three-per-cent to eight-per-cent increase in gross national product (GNP).

Finally, let me say a few words about the cultural and sovereignty arguments. The arguments about loss of sovereignty are endless and can never be resolved. Sure, in any agreement, both parties lose some freedom to do their own thing. As a matter of fact, it is precisely for this reason that Canada must sign a trade treaty with the United States to reduce the risk that our imports be curtailed by actions of Congress or the states in the future.

We should not let the loss-of-sovereignty argument be carried too far. Two counter-examples will illustrate its weakness. The European Common Market agreement is much more comprehensive than anything that is contemplated in the bilateral agreement with the U.S. Yet, it is difficult to argue that France, England, Germany, Italy, Belgium or Holland has lost significant autonomy in the area of growth and employment policies.

The second example is closer to home. Quebec shares a common market with the other nine provinces. Despite an intimate political and economic integration, it has had no major difficulty in adopting a cultural policy of its own. It has not lost its identity. Indeed, even the proponents of an independent Quebec in the '70s strongly argued for the maintenance of a common market with the rest of Canada.

So let us not be moved to tears by those who argue that free trade with the U.S. would bring a loss of Canadian sovereignty. If (French president Charles) de Gaulle could live with the Common Market, I see no reason why our Prime Minister and premiers could not live with free trade with our southern neighbour.

In 1948, men of vision built the European Common Market over the objections of the apologists of the *status quo*. Today, nobody would dare suggest that Europe would be better off if the clock were turned back and if new barriers were mounted between countries. Despite its bureaucratic rigidities, the compromises that it forces on each individual country, and the poor handling of the agricultural sector, the European Common Market agreement is still the better solution for each of its member countries. And the European business community would simply be appalled by the suggestion that it should be dismantled.

The Canadian business community has to rise to the challenge. Its leadership will be the critical factor in the success or the demise of the present trade initiative. A first step in establishing this leadership would be to disseminate the facts and to ensure that the debate does not fall prey to demagogic claims.

A second step would be to design ways and means to smooth the transition. Not all corporations will be able to adapt to this new challenging environment. Nor are they expected to. Moreover, trade patterns will be changed. Some regions will benefit more than others, although the regional costs seem to be greatly exaggerated.

With benefits outstripping short-term costs by 25 to 1 and more, there surely are sufficient resources to smooth out the transition. This is not to suggest that the adaptation should be delayed by subsidies. Such policies would be self-defeat-ing. But workers could be retrained, entrepreneurship could be stimulated, investment could be encouraged. A positive stance by the business community, a dedicated effort to find efficient ways of cushioning the impact without delaying the change would be a well-spent exercise in leadership.

It has been said that Ontario is, of all Canadian regions, the least enthusiastic about free trade with the United States. The Montreal business community has been fighting for more than fifteen years for Canadian unity. The casualties in the trenches have been high, but we fought for Canada and for the long-run benefits of Montreal. At decision time, a majority of our fellow citizens shared our vision of what was best for the future.

The Toronto business community faces a similar challenge today. You can make a significant contribution by putting your efforts and your influence behind a greater Canada and a much bigger Canadian market in the years to come. A new National Policy is in the making. Let us all participate in its establishment.

I sincerely hope that the Toronto business community will ally itself with the rest of the country for a better Canadian future. Canadians need your help.

The appreciation of the audience was expressed by Sydney Hermant, a Past President of the Club.

Dr. George Connell, B.A., Ph.D.

President, The University of Toronto

FROM THE IVORY TOWER
TO THE CORPORATE TOWER

October 17, 1985

The President
Harry T. Seymour, Chairman

Mr. Seymour

Distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today Dr. George Connell, President of the University of Toronto.

A distinguished student, teacher, researcher, administrator and author of more than 50 scientific articles, George Connell resigned as President and Vice-Chancellor of the University of Western Ontario to become the 12th President of the University of Toronto, effective September 1, 1984.

John Whitten, Director of the Presidential Search Committee, was quoted in the June 18, 1984, issue of *The Globe and Mail* as saying:

''He was chosen on the basis of his personal qualities—his integrity, knowledge of U of T where he has spent 28 years, strong academic background and his demonstrated communicative skills.''

After graduating from Upper Canada College in 1947, George Connell moved to the University of Toronto, where he received an Honours Bachelor of Arts in biochemistry in 1951 and a Ph.D. in 1955. The same year he married Sheila Horan, whom we are pleased to have with us today.

In 1957 he returned from postdoctoral fellowships at the

National Research Council in Ottawa and at New York University to become Assistant Professor of Biochemistry. Assuming ever-increasing levels of responsibility, George Connell was appointed Chairman of the Department of Biochemistry in 1965, Associate Dean of the Faculty of Medicine in 1972, and Vice-President Research and Planning two years later.

Of his seven-year presidency, William Jenkins, Chairman of Western's board of directors, said:

"He has been an outstanding President of this University and has shown great skill and leadership in this period of financial restraint."

Known for his love of whitewater canoeing, skiing and tennis, George Connell has been preparing himself, both physically and mentally, for several years for the perilous task that lies ahead of him.

Suffering from underfinancing, overcrowding, somewhat inadequate facilities, and disillusionment among some faculty members and students, the University of Toronto is struggling to maintain standards of scholastic excellence, including an international reputation in the humanities, in an increasingly hostile environment. In short, it is a situation that calls for "inspired leadership."

Two somewhat sensitive issues on the university agenda today that require inspired leadership are (1) divestment—and should the U of T dispose of its holdings in companies with business activities in South Africa? and (2) technology transfer—and should the U of T succumb to the increasing pressure from society to translate science into economy, into jobs?

On divestment, sir, you concluded your remarks in the September/October, 1985, issue of *The Graduate* by saying:

"Whatever course the governing council chooses, the university will continue to be an arena in which opinions are strongly held and thoroughly tested in debate, and in which individuals are given the conviction and competence to pursue their ideals in the *wider world*."

On technology transfer, the open debate continues unabated, as most Canadian universities have always functioned on the premise they are not the handmaidens of industry. With the new economic realities the world faces today, however, university administrations are re-examining their operating mandates.

This issue poses particularly difficult questions for the university community, but I know that you, sir, are equal to the challenge, as I am certain your remarks today will appropriately address some of these questions. Francis Bacon in his essay entitled "Of Studies" wrote: "Reading maketh a full man; conference a ready man; and writing an exact man." I propose, sir, that your 38 years in the university community have prepared you well in all respects.

Ladies and gentlemen, it gives me particular pleasure as a '62 graduate of "the school of practical science" to introduce Dr. George Connell, President of the University of Toronto, who will address us on the subject. . . ."From the Ivory Tower to the Corporate Tower."

George Connell

National Universities Week begins on October 19. I believe that each one of you in this distinguished audience has something to celebrate during that week. Many of you are graduates of Canadian universities, or of universities elsewhere, and have had your lives changed by your experiences as students. Many of you are parents of students of the present day and are sharing the ups and downs of their academic careers.

All of you are the beneficiaries of university research in one way or another — you may have dined at one time on Pablum (devised by Dr. Frederick Tisdall, a professor of the University of Toronto at the Hospital for Sick Children), or more recently watched the launching of a satellite by the Canadarm, which was developed by Spar Aerospace with research support from U of T faculty. You have undoubtedly received professional advice from a variety of university graduates in practice as physicians, lawyers, nurses, engineers, pharmacists and architects.

Universities are important to you as individuals; they are also important to business and industry—to the innumerable corporations and enterprises of Canada, large and small, which are the economic engine of this country.

There are many signs that we are in the midst of a major transformation in business-university relationships in Canada. The ivory towers and the corporate towers are no longer remote from each other and intellectually isolated. The traffic between them is now very busy indeed. The joint enterprises are too numerous now even to count. The reason? Both sides see very clear benefits from these associations—the sharing of physical and intellectual resources can be as advantageous to universities as to corporations.

I want today to speak to you about only one aspect of university-industry relationships, but it is without any question the most important aspect. This is the flow of new graduates who go from universities each year to jobs in Canadian companies. More than half of all our graduates are employed in Canadian business and industry. What happens to them is extremely important to us. It is even more important to their employers. Most Canadian companies that are successful will succeed because Canadian graduates perform well in the roles that are assigned to them and the roles that they create for themselves.

Sometimes you will hear from educators the proposition that university experience is not intended to prepare graduates for jobs. You will not hear that from me. Universities have *always* prepared students for jobs. In the very beginning, the original ivory towers, the universities of Italy, France and England in the 12th and 13th centuries, educated their graduates for work as lawyers, physicians and clergy. In the late 20th century, we still educate lawyers, physicians and clergy, but we also educate many others, both specialists and generalists, whom we expect to earn their livelihood in the world of business.

I might have chosen to speak to you about the quantitative issues, supply and demand for highly qualified personnel. These are difficult and important issues that have been spotlighted once again in the public arena by the Macdonald Commission. But I have chosen instead to address the issue of *quality—how well are we doing*? Are Canadian university graduates as well qualified as we would hope and expect them to be for their future employment?

These are critically important questions for the future of Canada. In recent years in the manufacturing sector, there has been a renewed interest in quality control—recognition that quality is the essence of effective marketing and competition. If quality is important in manufactured goods, how much more important it is for the development of intellectual ability and professional skills for the next generation of Canadians.

So how are we doing? There are some positive signals. Every major campus in Canada is host to corporate recruiters, literally by the hundreds. They evidently find what they are looking for. Many thousands of graduating students are placed in jobs each year and the recruiters keep coming back. We are encouraged, too, that the unemployment rate for university graduates remains low—lower, in fact, than for any other educational level. In 1984, unemployment for university graduates was 5.4 per cent compared to 13 per cent for those with only high-school education.

We also have an abundance of anecdotal evidence. Here is a typical example. A few days ago, David Whiteside, the President of Lanpar, a leading Canadian computer company, told me about a young man who had assumed responsibility for several major customers for computer networks only a few days after he started his job. When asked how he acquired all the information and technical know-how, he said:

"I'm straight out of computer science at the U of T."

While such experiences are reassuring, I believe that we have a serious need for a more systematic ongoing assessment of the preparation of university graduates for corporate employment.

Fortunately, that view was shared by the board of the Corporate-Higher Education Forum. The Forum is a new and potentially very important instrument for university-corporate dialogue. Founded in 1983, the Forum brings together 27 university presidents and 35 corporate chief executive officers. Under the chairmanship of Lloyd Barber, President of the University of Regina, and with corporate leadership from Allan Taylor of the Royal Bank of Canada, John Panabaker of Mutual Life, James Black of Molson's, and David McCamus of Xerox Canada, the Forum has already proved its usefulness. Two publications illuminating university-corporate relations in research have already appeared: *Partnership For Growth* in 1984 and *Spending Smarter*, published only last month.

About a year ago, John Panabaker and I were asked by the Forum to set up a Task Force on Human Resource Management. The other members of our task force are Robert Bandeen of Crown Life, James Downey of the University of New Brunswick, Walter Light of Northern Telecom, Burton Matthews of the University of Guelph, Jean-Guy Paquet of Université Laval, Robert Purves of Inter-Ocean Grain and William Stinson of Canadian Pacific.

We were given the task of examining the experience of university graduates moving into their first jobs in Canadian corporations. We decided to find out in some detail what managers in companies thought of the ability of their new employees, what the graduates themselves thought of their preparation for their jobs, and what, if any, were the problem areas.

As the first step, we recruited two able consultants, James Rush, Professor of Business at the University of Western Ontario, and Fred Evers, Professor of Sociology, now at the University of Guelph. With the advice of the task force, Rush and Evers designed a questionnaire that we believed would elicit the information we were seeking.

We decided to make use of the companies that are members of the forum as the target of our survey. The Forum is an excellent representative group of large Canadian corporations. Twenty of the companies actually took part in our study. Among them were financial institutions and companies in each of the resource, service and manufacturing sectors. Most of them have operations in all parts of Canada and have recruits from many different Canadian universities.

Questionnaires were distributed to recent graduates in the companies, to managers supervising these graduates, and to more senior officers of the companies. The managers and senior officers were asked to assess the performance of graduates according to thirteen distinct categories of job-related skills: general administrative skills, quantitative and mathematical skills, decision-making ability, organizing and planning skills, innovation, oral communication, adaptability, leadership, written communication, ability to initiate, technical skills, problem-solving ability, and ability to work independently.

The graduates were asked to assess themselves in the same thirteen categories, but they were asked to say how well their university experience had prepared them in each category.

There were 655 replies, of which two thirds came from the graduate group and one third from the managerial-executive group.

The managerial-executive rating of the graduates was consistently good. On a five-point scale, the lowest average rating in any category was 3.4. Overall, the performance rating was well above the midpoint in all thirteen categories. The ratings were particularly high (over four on the five-point scale) for quantitative-methematical and technical skills, for problem-solving and capacity for independent work. The least-developed skills appeared to be in leadership ability, general administration and written communication.

It was interesting to find that the graduates' assessment of their university experience confirmed in most respects the judgements that the managers had made. On average, the graduates judged themselves to be particularly well-prepared for quantitative-mathematical work and for independent effort. These scores were over 4.5 on the five-point scale. The weakest areas of preparation, in the opinion of the graduates, were general administration, leadership and oral communication.

It should be noted that the graduates in the survey were drawn from a wide variety of university programmes. There were approximately equal numbers from each of four sectors—business schools, engineering, science faculties, and humanities and social sciences.

While graduates in each group received comparable ratings overall, there were quite distinct differences in the rating of particular skills. For example, engineering graduates were rated relatively well on technical skills and poorly on written communication. Exactly the reverse was true for graduates in the humanities and social sciences.

What are the major findings and conclusions from our study?

(1) In general, among the graduates of Canadian universities, Canadian corporations are finding recruits who are capable of serving their companies well.

(2) Graduates, particularly those with science and engineering degrees, are relatively well-prepared for mathematical and technical aspects of their jobs, but less well-prepared with regard to broader managerial skills.

(3) Among the problems that have been identified, one that stands out is the relative weakness in communication skills, or, to use the old-fashioned terms, writing well and speaking well. It seems to me imperative that university graduates, whatever the nature of their programmes, should have the ability to use at least one of our national languages at a level commensurate with their other educational achievements. This is not a goal that the universities can achieve on their own.

Effective writing, speaking and comprehension should be identified as the foremost general objective for all levels of the educational system—primary, secondary and tertiary. I believe strongly that universities should affirm their dedication to this proposition and should work in close collaboration with Ministries of Education, with school boards, and with practising teachers to bring about a dramatic improvement. Corporate support for this goal is exemplified in the brief from Northern Telecom to the Macdonald Commission.

"Canada's educational system must emphasize the development of a literate population armed with the tools needed to communicate in a world increasingly dependent on the production and transfer of information."

(4) Corporations themselves are a highly significant part of our educational system. A study in the United States sponsored by the Carnegie Corporation (N.P. Eurich & E.L. Boyer Corporate Classrooms, Carnegie Corporation for the Advancement of Teaching, Princeton, N.J. 1985) estimated that (in 1981-82) the cost of education and training in corporations was $60 billion, an amount comparable to the total spending of all four-year colleges and universities in the U.S.

Professors Rush and Evers have suggested that we think of the first phase of higher education as a six-to-eight-year process, co-managed by the universities and the organizations that employ their graduates. Some parts of the total educational task can be done well and efficiently by corporations. It would be undesirable to assign responsibilities for such tasks to the universities.

What is desirable is to have comprehensive mutual understanding among all parties as to the educational goals of each, and the division of responsibility. I hope that the Corporate-Higher Education Forum will make a significant contribution to the evolution of this understanding.

(5) The Forum survey has deliberately illuminated the experience of relatively new recruits to Canadian corpora-

tions. They have been recruited to assume specific responsibilities and we have examined their educational preparation in relation to those responsibilities. We must assume, however, that most graduates will change jobs, perhaps many times, in the course of their working lives. In a sense, the most important part of their university education is the part that remains important to them throughout their careers. It is for this reason that Rush and Evers recommend that: "Technical programmes such as engineering and computer science should not sacrifice general liberal-arts requirements as the fields grow more complex." The same point was expressed by the Macdonald Commission in a different language: ". . .many, if not most, Canadians will have to undertake considerable retraining during their lives. These realities led the Commissioners to emphasize the value of a solid general education—of learning how to learn—so that Canadians may be well equipped to adapt quickly and efficiently to the changing realities of the labour market."

Finally, I should like to add two personal observations. The first is that universities, corporations and indeed, the public should find solid reasons for satisfaction in the survey I have described to you today. The conclusion is clear: That a representative group of large Canadian corporations consistently finds capable, well-prepared employees among the graduates of Canadian universities. *We should be satisfied, but we should not be complacent.* There are also several reasons for vigilance:

(1) The world is changing rapidly, not only in science and technology, but also in many other ways that will reshape our private sector—design and production techniques, patterns of trade, financial strategies. What is appropriate education for the graduate of today may be obsolete in part in as little as five years. Just one example: A number of senior corporate executives have brought to my attention the growing importance of mastery of for-

eign languages on the part of their employees.

(2) A related point is that some of the companies in our survey *may* have recorded their satisfaction with graduates in the context of the *status quo*—that is, they may not have perceived a need for a major change of company strategy or style. If and when such changes do come, the need for corresponding change in university programmes will become more pressing.

(3) A third and by far the most urgent cause for concern is the health of our universities. The state of public support for higher education in Canada is critical. During the last five to ten years, I believe that every university in Canada has actually lost ground in the struggle for quality in education and research. *The cold fact is that quality in education costs money.* If we are to meet the demand for quality in the highly educated work force, there will have to be a radical change in public policy for universities, both in Queen's Park and in Ottawa.

The fact is that no university in Canada, including my own, has resources that come close to those of the major universities of the United States. Our performance has been reasonably good in the circumstances. That cannot last.

In closing, let me return to my main theme. The work of the Corporate-Higher Education Forum that I have reported to you today is ground-breaking. It should be regarded as a first attempt to obtain dependable information that can help not only universities and corporations, but also governments, to choose appropriate strategies and policies.

There are innumerable ways in which the approach developed by our task force can be extended to examine assimilation of graduates by other sectors, to focus on employment practices of individual companies, to illuminate the performance of particular universities.

I am convinced that the example of the Forum will stimulate much more interest and activity. I am convinced, too, that the spirit of cooperation between ivory towers and corporate towers, which has animated the work of the Forum, will continue to prevail in the future.

The appreciation of the audience was expressed by Dr. Reg Stackhouse, a Past President of The Club.

The Hon. Perrin Beatty, P.C., M.P.

Solicitor General of Canada

PRIORITIES OF MY NEW OFFICE

October 24, 1985

The President
Harry T. Seymour, Chairman

Mr. Seymour

Distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today the Hon. Perrin Beatty, Solicitor General of Canada.

When Brian Mulroney gained the leadership of the Progressive Conservative Party in January, 1983, Perrin Beatty, a Joe Clark loyalist, found himself demoted from communications critic to revenue critic in the shadow cabinet. The move to Revenue seemed, at best, to represent a holding pattern in Beatty's political career.

But a combination of luck and skillful parliamentary manoeuvring turned the appointment, as one reporter noted, into political gold. In short, Perrin Beatty became a national figure in 1983 for his trenchant criticism of the National Revenue Department's operations and its treatment of taxpayers.

Curiously enough, the Minister's roots can be traced to an attractive five-year tax concession that was granted in 1874 in Fergus, a small town in the heart of Ontario's agricultural community. Armed with this incentive and spurred by three generations of mechnical geniuses, Beatty Bros. Ltd. flourished and evolved into the largest manufacturer of white goods in the Commonwealth before it was bought out in the 1960s.

After graduating from Upper Canada College in 1968, Perrin Beatty pursued his studies at the University of Western Ontario, graduating with a Bachelor of Arts degree in political science and history in 1971.

Inculcated with strong beliefs in personal responsibility and in limited government, Beatty's association with the Progressive Conservative Party flourished while he was at Western. His "Off Centre" column in *The Gazette*, the student newspaper, attracted considerable attention, as it reflected a right-wing approach generally unpopular with students in the sometimes-violent 1960s.

In 1972, at age 22, the Minister successfully contested the federal riding of Wellington-Dufferin-Simcoe, which contains Fergus, because he perceived a degree of "normalcy" was returning to society after the turbulent 1960s. In 1974, he married Julie Kenny, sister of Liberal Senator Colin Kenny. The Beattys live in Fergus with their 18-month-old son, Christopher.

In his first two terms in the House of Commons, Beatty established himself by concentrating on issues dealing with the rights of the individual. His handling of those issues was so impressive that it catapulted him, at age 29, into the cabinet as the Minister of State for the Treasury Board in Joe Clark's short-lived 1979 government.

Mr. Minister, when we first discussed your planned visit with us today, you were in the process of changing the attitudes of, and introducing the 76 recommendations in your "Crisis of Confidence Report" to, Revenue Canada's 30,000 employees.

Now, at age 35 and with almost 13 years of parliamentary experience, our guest finds himself charged with responsibility for this third portfolio, that of Solicitor General of Canada, and a completely new set of challenges: crime prevention; rehabilitation; the rights of victims; Young Offenders Act; and so on.

Although it is too early for his critics to have formed an opinion on his handling of his new portfolio, those adversaries he faced in Revenue were impressed. Liberal critic George Baker said:

"More than a few times, I have been working late and called his office for technical advice. All his assistants will have gone home, but there will be this voice on the line telling me the Minister is still in and he would be glad to help me."

New Democratic Party critic Simon de Jong said:

"He is sincere, interested, and dedicated to cleaning up some of the messes. There is an aura around Perrin that he is competent."

Ladies and gentlemen, it gives me great pleasure to introduce the Hon. Perrin Beatty, Solicitor General of Canada, who will address us on the priorities of his new office.

Perrin Beatty

Ladies and gentlemen: It is a great pleasure for me to speak to The Empire Club, which has a long and distinguished tradition of presenting speakers in the vanguard of our society. I am honoured to be here today.

I want to talk to you today about my new responsibilities as Solicitor General of Canada.

Much of what I will want to do as Solicitor General mirrors in principle what was a brief but very rewarding term as Minister of National Revenue. The PC Task Force on Revenue Canada found a great deal of evidence to suggest that Canada's tax-collection system, once one of the most fair and effective in the world, was in a crisis. Respect for the system was breaking down, complexity of the law was increasing, the number of objections filed was away up, there were suggestions of invasion of privacy and much more. In short, neither the taxpaying public, tax practitioners, nor even Revenue Canada's employees perceived the system as being fair and equitable.

While not wanting to suggest that our criminal-justice system is in any equivalent state of crisis, I want to make these same principles of fairness and equity the hallmarks of my tenure as Solicitor General. If we expect Canadians to be honest and law-abiding, then the most rigorous standards of conduct and fairness must begin with me and my department.

I'm proud of what we achieved in National Revenue in overcoming an atmosphere of crisis and restoring confidence and cooperation. If we were successful, it was not because I, as Minister, had some mysterious qualities that others did not. It was because we stuck to our basic themes of openness, fairness, and equity, and because of the professional and dedicated public servants, at all levels, who assisted me in carrying out my work.

In coming to the Solicitor General's portfolio, I must admit I did not arrive with a working document the way I did at Revenue Canada. As a result, for the last two months I have been travelling our country, consulting, and most importantly, listening. I have been to prisons, halfway houses, RCMP detachments, Parole Board and Security Intelligence Service offices. I have hosted meetings for groups such as the John Howard Society, Elizabeth Fry Society, police associations, lawyers and others interested in the criminal-justice system.

What I discovered is that this job is not about jails or person-year reductions, or even spies. It is about people—people like you and me.

We in government have a duty to ensure that the criminal-justice system reflects a wider dimension than just policing, corrections or parole. We must let social equity be our guiding principle, not just for police, prison guards, inmates and others who are in the system, but for us all.

I want to outline today a number of initiatives that will provide a blueprint of much of what I will do as Minister. In the months ahead, I will outline these initiatives in considerable detail and start implementing them as quickly as possible.

Social equity is a wonderfully melodic term but that's all it would be, unless I were to outline specifically what it means to me. Let me start with our correctional system and mandatory supervision.

When a judge sentences an offender to nine years in prison, it doesn't mean that—it means only six years, so long as the inmate has been reasonably behaved while in prison. In many cases, parole even earlier than the two-thirds point is possible.

The government has proposed some substantial changes to corrections law in Canada. Specifically, I want to give the National Parole Board important new powers to halt the release of inmates under mandatory supervision if there are reasonable grounds to believe they represent a danger to society. I find it nothing less than shocking that we are now bound by a law that puts dangerous offenders such as child molesters and rapists out on the street before the end of their sentences when we know, or strongly suspect, they will be a danger to society.

Many other Canadians have been very upset, and justifiably so, about this travesty. Earned supervised release is a valuable program, giving inmates a chance to adjust to life on the street under supervision before the end of their sentences. But, somewhere along the way, we made a mistake in not providing for detention until end of sentence of the few who just aren't ready to come back into society. This new bill, which we are just now debating in a House of Commons committee, will do much to reassure Canadians that the Government is thinking of their safety and well-being in administering the corrections system.

Many offenders who don't follow release conditions will go back in. They will not have another chance at mandatory supervision. The revolving-door syndrome will finally stop.

At the same time, stringent procedural safeguards will be provided for the inmates affected. They are based on the notion of a presumed right of release that can only be interfered with on reasonable grounds and after fair process. Our bill is a reasonable compromise that will protect the paramount public interest and the legitimate interests of inmates at the same time.

As I said earlier, I've been getting out into the field, visiting some of our penitentiaries and talking to staff, guards, inmate committees and citizens' advisory committees. Two things in particular struck me. The first is that we are warehousing too many non-violent offenders, letting them rub shoulders with some of the worst of our society. If we are going to stop the vicious circle of spending on new prisons and more staff, we have to get more offenders into community programs, paying society back through community-service work and restitution.

A cheque forger is certainly a criminal and deserves to be punished, but does he need to be locked up in Kingston at monumental cost, just putting in time and reflecting on how he got caught? Community-service work would be more beneficial to the inmate and society. I'll be concentrating on more alternatives for such non-violent offenders so that society can be repaid for what it is owed.

In talking to inmates and guards, I also came away with the clear impression that inmates are not working enough and not enough inmates are working. Frankly, I was shocked and upset by the spectacle of inmates just putting in time with nothing meaningful to do. I'm not saying we don't have good employment programs; we do, some of the best in the world. But we haven't devoted enough resources to systematically developing meaningful employment that keeps every inmate busy an entire working day.

How can one have order and rehabilitation in prison without giving inmates worthwhile goals and duties? How can we expect released inmates to become productive members of society if they have never heard of the work ethic or know what it is to put in a fair day's work?

Make-work is no answer. There are few things more frustrating than having to do a job that every one knows has no useful purpose. Most of our inmates today have jobs in their institutions or are being trained or educated. For example, much of the food consumed in our prisons is raised or grown on prison farms. But, what we have to do is find more full-time, useful employment.

I'll be looking into creating increased opportunities for inmates to work by selling more inmate products to Supply and Services Canada, and by expanding joint work ventures with the private sector in such industries as forest management.

We also will develop national work standards for the inmate population to effectively measure inmate productivity, which is a problem. At the same time, we will move more towards creating a normal work day, as it were, in the institution to more closely approximate outside conditions.

When people talked about social equity and the criminal-justice system in the past, they tended to refer to inmates' rights, rehabilitation and the like. All are valid and just. Unfortunately though, this is only one side of the equation. The police catch an offender, the courts hold a fair trial, the prison system does its best to offer rehabilitation. Although this is entirely appropriate, nowhere does the system seem to offer anything to the innocent victim, or to you and me in the community who pay for our expensive criminal-justice infrastructure.

Even though I am still new in my portfolio, I do know that I want to make progress improving services to victims of crime—as I said, the forgotten factor in the criminal-justice equation—and in encouraging more community-based crime prevention. These are two areas in which I believe we can improve the quality of life for Canadians as a whole.

We have started to make some progress in improving the lot of victims of crime. Recently I headed the Canadian Delegation to the 7th United Nations Congress on the Prevention of Crime and the Treatment of Offenders. At this congress, I proposed a draft declaration, later adopted unanimously, on basic principles of justice for victims. This declaration, now before the General Assembly, calls for basic rights of justice for victims.

Canada now meets these basic principles, but I feel we should do more. Building on the Ministry's five years of experience in working for victims' rights and services, I want to greatly improve the criminal-justice system's capacity to serve victims. We can do this by continuing and expanding our efforts to promote through the police, community organizations and others, the creation of new programs to help victims deal with the impact of the crime, to get greater access to the justice system and information about their case, and to assist them in getting compensation and restitution for their loss.

If you or your loved ones were victimized in some manner, whether through a break-in of a home or car, or worse, by a violent offence, would you know whom to turn to, who could help you protect your rights and who could give you the support and understanding required? Wouldn't you feel you deserve equivalent information to that offered offenders?

Wouldn't you feel you were entitled to compassion and understanding and perhaps to compensation for your losses by the offender if he or she were apprehended and if these losses could even be measured? If some of your property were stolen and quickly found by the police, don't you feel you should be entitled to have it back in your possession in short order? I do.

I want to look at all of these things, including doing more to train police in handling victims' needs at the scene of the crime and later on. We can bolster our efforts to provide information on how to organize and administer victims' services. We need imaginative ways to divert funds to compensation and restitution programs and I want especially to improve our research capacity in order to better understand and respond to particular concerns of different types of victims. In short, the Federal Government will be taking more leadership in the victims' area.

Crime prevention is another area where we can do much to help Canadians help themselves to greater security. The Ministry has, along with the private sector, been sponsoring annual national crime-prevention weeks to focus Canadians' attention on the benefits of concerted community action to prevent crime. The year Crime Prevention Week takes place Nov. 3-9, and I'll have the honour of presenting the Solicitor General's Crime Prevention Award to individuals and groups who have made outstanding contributions to community crime prevention.

Community-based crime prevention is an idea whose time is long overdue. We will continue to support the development of programs and information to help Canadians protect themselves from crime.

The principles of fairness and equity I mentioned earlier can be brought to bear more effectively on these and other facets of the criminal-justice system. I want to make the point right now that we have without doubt one of the finest criminal-justice systems in the world. But it can be improved.

One area where I feel we can make significant improvements is in combatting highly profitable commercial crime activities, such as the illicit drug trade, which are organized and operated like large businesses. The drug trade in Canada is estimated to involve transactions totalling billions of dollars annually, and the profits are used to finance other illegal activities or laundered through financial institutions in Canada and abroad and used to infiltrate and sometimes undermine legitimate business.

To combat such crime, we have to reduce the profit motive by attacking the proceeds of these criminal activities. This approach, which is the centrepiece of drug-law-enforcement efforts in Italy and the United States, is intended to give added emphasis and bite to the ancient and honoured Common-Law precept that criminals should not profit from their crimes.

It is noteworthy, in this connection, that Canada is one of the few western countries to make it an offence to possess the proceeds of crime. Paradoxically, criminals can still profit from their crimes, despite the farsighted wisdom of the legislators who created this offence.

The reasons are quite simple. Our laws do not provide, for example, for the seizure of proceeds of crime once they have been deposited into an account or converted into real property. Nor do we have clear forfeiture provisions for the disposition of the proceeds of crime upon conviction.

Let me illustrate the consequences. Recently, a convicted Colombian drug trafficker, who had laundered approximately $50 million derived from drug trafficking in the United States, deposited $800,000 in illicit proceeds in a financial institution in Montreal. Because the possession of the proceeds of crime in Canada is an offence, regardless of where the illegal transactions took place, a warrant was issued to the Royal Canadian Mounted Police for the seizure of approximately $400,000 remaining on account at the time the warrant was issued. The warrant was challenged, the challenge was upheld by the courts, and the bulk of the remaining funds was transferred out of Canada.

In another case, this time in Alberta, the police and courts were powerless, despite the conviction of the individual, to prevent the dissipation of illicit proceeds amounting to hundreds of thousands of dollars in financial-institution accounts and real estate. Why can't these funds be turned over to us to help defray some of the enormous costs that taxpayers like you and me are constantly having to dip into our pockets to pay for?

I'm exploring, with my colleague the Minister of Justice, ways of ensuring that criminals convicted by the courts do not profit from their criminal action. To do this will require legislation, enforcement action, and the active cooperation of the financial and business communities both in Canada and internationally. I am asking many of you here now from the financial community for your support and your ideas. I will be consulting with many of you shortly.

I am pleased to report that Canada is also in the forefront in the development of initiatives that will attack the international dimension of crime. Canada is working with the United Nations in the development of a new Convention to help control international drug trafficking and is part of similar efforts by the seven Economic Summit countries. We are also establishing a network of mutual legal-assistance treaties. Thus far, we have signed a treaty with the U.S. and we are now negotiating with the Bahamas and Switzerland. Beyond this, our law-enforcement agencies, particularly the RCMP, work closely with their counterparts in other nations and Canada is an active supporter of Interpol.

I will be asking the RCMP to improve and expand upon its efforts to develop, with Health and Welfare Canada, awareness programs to solve specific problems related to drug trafficking and drug abuse. In addition, I have asked the RCMP to look at developing modern computerized drug-intelligence capability to assist in tracking down major traffickers and assist coordination with drug-intelligence officers of other countries.

As I indicated in my earlier comments on crime prevention, governments, enforcement officials, corporations, and individual citizens share responsibility for controlling crime in our workplaces and communities, and I was pleased to note that in a recent address to the annual meeting of the Canadian Association of Chiefs of Police, Allan Taylor, chairman of the executive council of the Canadian Bankers Association, outlined the financial community's responsibilities in controlling crime, particularly the importance of close cooperation with enforcement agencies.

In his remarks, Mr. Taylor also highlighted the banks' commitment to client confidentiality. This is an important reminder that, in our efforts to combat crime, particularly sophisticated criminal conspiracies, we must ensure that the rights and freedoms of Canadians are safeguarded.

I believe that the objectives of effective law enforcement and the protection of civil rights are compatible and that, with the cooperation of both orders of government, municipalities, the private sector, and individual Canadians, it will be possible to take the profits out of crime.

One other bill I now have before the House of Commons will create a Public Complaints Commission for the RCMP and bring internal discipline and grievance procedures within the Force in line with accepted police labour relations in place in most other police forces in North America.

I'm surprised how little attention this bill has received. It was over ten years ago that the Marin Commission of Inquiry into RCMP handling of public complaints, grievances, and internal discipline, stressed in its report that Force procedures should be open and visibly fair. Bill C-65 is a large and involved bill but this is its bottom line: to allow any member of the public, whether he or she is directly affected by the complaint, a formal, independent and objective process to bring complaints against members of the Force. There is not now any such mechanism for redress of public complaints against the RCMP; neither is there any formalized body to arbitrate in Force actions against its members.

An External Review Committee, which like the Public Complaints Commission will make an annual report to Parliament, will protect the rights of rank-and-file Force members while giving them clear guidelines as to what is expected of them as members of one of the best police forces in the world.

I want to end with a few words about anouther aspect of my responsibility, the Young Offenders Act. This Act has been getting a great deal of media attention since its coming into force and I am the first to recognize that there are some problems with it, although not nearly on the scale that some would have us believe.

No matter how careful the drafters are and how carefully legislation is considered—and this Act had ten years of consultations preceding its enactment—its only test is its performance as law.

I believe the Act is, for the most part, working and I totally agree with its fundamental principles. It was legislation badly needed to reform the juvenile-justice system and to give in law to young people the rights and obligations that we enjoy as adults.

But, as can be expected with any new legislation that so fundamentally affects our social fabric, there have been problems. For example, in my own riding, a problem was identified when a youth charged with murder was found not guilty by reason of insanity.

The Act appears to require that all records associated with such a case be destroyed. Because this individual has been committed to an institution, it is clearly necessary that these documents be available to assist the provincial authorities in providing appropriate treatment and in reviewing the case, as is required under the Criminal Code.

This and other problems highlighted in recent months have moved me to direct my department to consult with the public and my counterparts in the provincial governments to determine what amendments may be needed. In fact, I begin my first such consultation tomorrow here in Toronto and will be meeting with my provincial counterparts early in the new year to get on with the job. My deputy minister will continue his regular meetings with his counterparts in support of these consultations. I am confident that this Act, a progressive piece of social policy legislation, can be adapted to make it fully responsive to the concerns that have been voiced by those who have had to work with it.

I have taken you on a bit of a whirlwind tour of the Ministry of the Solicitor General today and, if I have left you with one main impression, I hope it's that I view my role as one of elected representative chosen to lead and also to listen.

Mandatory supervision, the rights of victims, work in prisons, alternatives to incarceration for non-violent offenders, community-based crime prevention, taking the profits out of crime, and the Young Offenders Act are but some of the areas on which I will be concentrating in the short term. In a Ministry that employs more than thirty thousand personnel with such weighty responsibilities, there is bound from time to time to be tension between the aims of law enforcement and corrections, national security and parole, and individual Canadians who come into contact with the system. There is a way to resolve such tensions, and that is for me and my officials to stick firm to our themes and the principle of social equity in discharging our responsibilities.

The appreciation of the audience was expressed by Michael Meighen, Second-Vice President of The Club.

Paul A. Volcker

Chairman, Board of Governors
of the U.S. Federal Reserve System

THE WORLD ECONOMY

October 28, 1985

At a dinner meeting held jointly by
The Empire Club of Canada
and
The Canadian Club of Toronto

Co-Chairmen
Harry T. Seymour, President,
The Empire Club of Canada
and
James B. Pitblado, President,
The Canadian Club of Toronto

Mr. Seymour

Your Excellency, honourable ministers, distinguished guests, members and friends of The Empire Club of Canada and of The Canadian Club of Toronto, it is my pleasure to welcome as our guest speaker this evening Paul Volcker, Chairman, United States Federal Reserve System.

On the occasion of the reappointment of Paul Volcker to a second four-year term as Chairman of the Board of Governors of the Federal Reserve System, effective August 6, 1983, John J. Phelan Jr., President of The New York Stock Exchange, said:

"He has done a remarkable job of bringing inflation under control and guiding the economy through a very difficult time. He has an established record in which everyone has confidence."

At the same time, Gerald Bouey, Governor of the Bank of Canada, stated:

"I have a very high regard for Paul Volcker as a public servant and central banker. . .He's handled his job well in an extremely difficult period and he played a key role in the success, so far, of the international financial system in coping with the international debt situation."

Born in Cape May, N.J., Volcker is married and has two children.

After graduating with a Bachelor of Arts degree from Princeton University in 1949 and with a Master of Arts degree in Political Economy and Government from Harvard University Graduate School of Public Administration in 1951, Volcker attended the London School of Economics prior to joining the Federal Reserve Bank of New York as a full-time economist in 1952.

Our guest, who soon developed a reputation as a brilliant thinker and long-term planner, attracted considerable attention and was "hired away" by The Chase Manhattan Bank in 1957, thereby starting the confident young banker on a career that would continue to alternate between government service and banking. During his second term of service at the United States Treasury as Under Secretary for Monetary Affairs, he played a major role in revision of the international monetary system, for which he received The Alexander Hamilton Award.

Following a year as Senior Fellow in The Woodrow Wilson School of Public and International Affairs at Princeton, Volcker became President of the Federal Reserve Bank of New York on August 1, 1975. He held this post when he assumed his present responsibilities as the chief executive officer of the Federal Reserve System as Chairman of the Board of Governors on August 6, 1979.

The seven members of the Federal Reserve Board of the United States are nominated by the President and confirmed by the Senate. A full term is fourteen years. One term begins every two years, on February 1 of even-numbered years. The

Chairman and the Vice-Chairman of The Board are named by the President from among the members of The Board and are confirmed by the Senate. They serve a term of four years. Their broad mandate is to promote economic growth in a stable price environment.

Armed with an international reputation as a tight-money man, Volcker approached the problem of approximately fourteen-per-cent inflation at the outset of his first term with total dedication. His tight-money policies in 1981 and 1982 were credited by most economists with helping bring down the nation's inflation rate, and by critics with causing the recession.

Regardless, he inflicted intense pain on heavy borrowers everywhere, from businessmen to presidents of countries. As one writer put it, the Gospel According to Paul became: "Man does not live by debt alone."

Paul Volcker was chosen for his second term as Chairman because of his expertise, his reputation for independence, and what was regarded at the White House as a proven record of fighting inflation. At the time of his reappointment, he was quoted as saying:

"I do believe we now have a rare opportunity to achieve sustained growth on a firm foundation of stability."

What impact have he and his policies had on people in general? The magazine *U.S. News and World Report* publishes each May a poll headlined "Who Runs America?" which lists the people Americans perceive as the most powerful figures in U.S. public life. For the past three years, immediately behind President Ronald Reagan, in the No. 2 position, has emerged Paul Volcker.

Faced with a persistent record of U.S. budget deficits, a fragile agricultural economy that threatens to plunge farmers into a more substantive financial crisis, and an unstable international debt situation, the U.S. Congress must face some critical decisions in the months ahead. Our guest will play a leading role in all these decisions and, as has been his style as head of the seven-member Federal Reserve Board, he will attempt to continue to draw out his associates and fashion a consensus in the interest of a stable economic environment.

In the words of Franco Modigliani, Professor of Economics at the Massachusetts Institute of Technology, consultant to the Federal Reserve System, a winner of the 1985 Nobel Prize for Economics:

"Volcker has created an imaginative policy, and it has been very good."

Ladies and gentlemen, it gives me very great pleasure to introduce Paul Volcker, at 6 feet 7½ inches the tallest Chairman in the history of the Federal Reserve System, who will address us on the topic, "The World Economy."

Paul Volcker

Hello North Americans! I greatly appreciate this opportunity to meet with so many leaders of Canadian life. And it's both a special honour and reassuring to have close to my side two of those responsible for conducting your own financial policies. Finance Minister Michael Wilson has played a constructive role in our international deliberations from his very first days in office, and my central banking colleague, Gerry Bouey, is dean of the Group of Ten central bank governors. His good sense, his goodwill, and long experience have greatly facilitated our cooperative efforts.

I know that up here in Canada it's sometimes said that running economic policy is akin to the hazards of sharing a canoe with an elephant. Well, that's an example of how perspectives can differ, even across the most open border in the world.

Ever since my family first exposed me to Barnum and Bailey, I have seen the place of the elephant in the scheme of things rather differently. He is usually a placid, friendly beast, with his feet on solid ground. Lots of times he is driven around in circles. But when necessary, he's also asked to lead the parade. In both roles, he's expected to carry heavy burdens and plod along predictably and quietly, providing a steady platform for the acrobatics of others and oblivious to all the distractions around him.

Now, I realize the United States may not always bear out my more benign view of an elephant, and there's much more at stake in the world economy than any circus. But the thrust of my remarks tonight on the world economy has one point common to any complicated performance: the success of the entire enterprise is dependent upon all the participants playing a constructive role.

The United States, simply by virtue of its size, is typically the focus of attention. What we do measurably affects others, perhaps Canada most of all. We would forget that at our own peril, not least because of what an economist calls "feedback" effects on our own economy. Naturally, domestic pressures, economic and political, as in any country, sometimes divert our attention. But I think it is also true that our basic and continuing economic interests—in stability and growth, in open markets, and in effective competition—coincide with the broader international interest.

But I must also emphasize that the United States is not the whole of the world economy—far from it. In fact, our relative weight has tended to diminish steadily over the years. Measured by Gross National Product (GNP), at the end of World War II, we were more than forty per cent of the whole; today the fraction is less than a quarter.

Obviously, the *cumulative* effects of what other countries are doing on the world scene are even more important than what we do. The reality of that cumulative impact may be obscured because, individually, other countries have less economic weight, and they may discount the effects of their actions on others. But recent developments illustrate clearly what we should know anyway, that even the United States is not an island unto itself.

Why, for awhile this fall, I even feared that you here in Toronto might intrude on that great American institution, the World Series.

In honour of the occasion, I thought I should present you with a memento of the season—in fact, a pennant! The Toronto Blue Jays—first in the hearts of their countrymen!

(Blue Jays lost out to Kansas City Royals in the 1985 American League pennant race.)

It inspired me to do a little research about the National Hockey League. I couldn't find out for sure what nation the word "National" in that name is supposed to refer to. But I did find out that it took nine American players, on the average, to equal the point production of one Wayne Gretzky.

The imbalances in the world economic league may be less striking, but they are evident nonetheless. And they won't be corrected without complementary action by a number of countries.

Looking at the industrial countries as a group, it can be seen that there has been good progress over the past three years, particularly when measured against the turmoil and instabilities of the 1970s and at the start of this decade. Employment is now growing almost everywhere, and inflation has been halved or more, from the two-digit range early in the decade to less than five per cent this year and last. Happily, both Canada and the United States have had better-than-average experience both in reducing inflation and in growth.

Moreover, that progress toward price stability has been extended through a period of economic expansion about to enter into its fourth year. I believe sustained expansion over time (and, I might add, lower interest rates) depends crucially on our collective ability to maintain greater price stability. Fortunately, there are favourable signs in that area. Competition in world markets is intense; capacity is readily available; raw materials, including petroleum, are in ample supply; and wage and other cost pressures are much more moderate. Policymakers virtually everywhere, against the experience of the 1970s, are properly more sensitive to the inflationary threat in the conduct of monetary policies.

In that sense, we have a good foundation upon which to build. But it's also plain that unemployment is still far too high in most industrial countries, and progress is threatened by increasing strains and distortions within national economies and between them. By and large, economic growth has been less than earlier in the postwar period, and it will probably be slower this year than last, even though unemployment remains in most countries at exceptionally high levels.

That is, of course, true of the United States itself. But in our case, after two years of particularly rapid expansion and sharp declines in unemployment, some slowing was perhaps natural. Moreover, *demand* in the United States has been relatively well maintained. Domestic *demand* over the past fifteen months has continued to rise at a rate of more that 3¹/₄ per cent a year, in contrast to a rate of increase in *output* of only 2¹/₄ per cent. Final sales to consumers, to government, and for investment and housing have been still larger, running to about 4¹/₂ per cent over the period.

The difference between growth in U.S. demand and U.S. output is a reflection on our rising trade and current-account deficit. In effect, while we have created more than 9 million jobs in three years within the United States, we have also turned to importing (net) well over three per cent of our gross national product. The effect has been to create export opportunities and stimulate job creation elsewhere. Even so, employment increases have been much slower abroad. As a result, the unemployment rate has, as you are well aware, remained over ten per cent in Canada, and it is at about the same level in Europe, where some 20 million are jobless.

If we look to the south of us, to the hundreds of millions living in the heavily indebted countries of Latin America and elsewhere, the challenges are even more pressing. About three years ago, a potential financial crisis burst on the world scene as one developing country after another faced an inability to service its debts in a timely way. Strong efforts by the borrowing countries themselves, and cooperation among creditor countries, the International Monetary Fund (IMF), and the involved commercial banking community, have helped diffuse and manage that threat. Most of the borrowing countries have made enormous progress toward achieving a better balance in their external accounts. Some of them have begun to grow again. The continuity of debt service has been largely restored.

But amid that progress, the strains and frustrations are evident. Much of the growth achieved by the borrowing countries so far—and it's far from uniform or satisfactory—has gone into improving their external positions; domestic living standards have not recovered fully, or at all. Increasing doubts have arisen about the continued availability of a margin of external finance needed to support growth, inflation remains rampant in some countries, and the structural reforms required to *sustain* growth are, at best, only beginning.

I might point out, too, that the remarkable progress that the indebted countries have made toward balancing their external trade position has as its counterpart increased exports to, and decreased imports from, the United States. Our trade balance with Latin America has deteriorated by $20 billion since 1981, accounting for considerably more than half of their collective improvement.

Plainly, the economic elephant of the United States is carrying a heavy load. With a trade and current-account deficit approaching $130 billion overall, it's showing the strain, in political as well as economic terms. Under the pressure of rising imports, manufacturing activity as a whole has been stagnant for a year, and some industries are losing jobs. Many individual farmers, with exports diminishing and prices low, face financial crisis. And, as you are well aware, the strongest tide of protectionist pressures is running since the ill-fated 1930s, despite the continuing growth of total jobs and economic activity.

To put it simply, the pattern of progress in the world economy over these past three years is being undermined. It's not just a matter of economic strains—huge trade deficits in the United States and counterpart surpluses elsewhere, stagnant employment in Europe and elsewhere, and the pressures of debt in the developing world—but also the political frustrations they breed. Surely, precisely the wrong response would be to permit those frustrations to boil over in shortsighted approaches—protectionism, defaults, and inflation—that could only aggravate the situation, undermine the progress that has been achieved, and set back prospects for years to come.

Happily, I believe those dangers are fully recognized by the responsible leaders in almost every country. What we have neglected, at least until now, is dealing with the imbalances at their source with a sufficient sense of urgency, and with adequate recognition of the complementary roles for all the leading countries.

No doubt there is a human tendency to look to the other fellow, or to the other country, to do its part, and hope that's enough. No doubt, the needed measures are also politically difficult. But there is also no doubt that, if we are to be successful, it will have to be a joint effort.

The broad directions that the effort must take were pretty well summed up in the communique issued by the Group of Five at its special meeting in New York a few weeks ago. The speeches and communiques at the recent World Bank-IMF meetings in Seoul reiterated the same themes.

In the United States, where the expansion has been so relatively strong, and which has provided so much of the impetus for world growth, the trade deficit has now reached a level that cannot be sustained, threatening to undercut our stability and implying less stimulus to others. Despite a relatively accommodative monetary policy, interest rates remain high historically, aggravating the strains on our own financial system and the developing world and drawing capital from abroad.

The clear policy prescription boils down to meaningful and assured progress against our record budget deficit. Relative to the size of our economy, our $200-billion deficit happens to be little or no larger than the deficits of a number of other industrialized countries—Canada's as you know, is a significantly larger portion of your GNP. But this is one area in which absolute size counts, and counts greatly. Our deficit not only looms large relative to our own limited propensity to save, but it represents a significant drain on world savings. It has implications for interest rates abroad as well as at home.

In a real sense, we have been fortunate that funds have flowed so freely to the United States in recent years, reflecting to a considerable extent widespread confidence in our prospects. We would not have been able to finance the federal deficit, on top of rising expenditures for plant and equipment and housing, without that net capital inflow.

But it is clearly not healthy for the largest and richest country in the world—in its own interest or that of others—to use up so much of the world's savings to finance a budget deficit. Our lending abroad has practically stopped, we are becoming a debtor nation, we have less investment and housing than would otherwise be possible, and our trading position is deteriorating. Sooner or later, the process is unsustainable, and it had better be approached constructively rather than in crisis. That is why so much is riding on the current debates in the Congress aimed at finding a constructive approach.

But, important as it is, further action on our budget deficit cannot be the entire answer, even if, contrary to the fact, it could be implemented immediately. It's also true that our trade deficit, the enormous trade and current-account surpluses of Japan, and the growing surpluses elsewhere, are directly influenced by the relative sluggishness of growth in most other countries. What is needed, in particular, is more "home grown" expansion in some other industrialized countries, rather than such heavy dependence on the United States or other foreign markets for stimulus.

I realize a key factor inhibiting action to promote greater growth in some countries has been concern over inflation, particularly against the background of depreciating domestic currencies vis-à-vis the dollar, and relatively large budget deficits. But in some key countries—especially Japan and Germany—a remarkable degree of stability has been achieved for some time. Certainly, that progress needs to be consolidated. But that process is now being assisted by the more recent tendency for their currencies to strengthen. Moreover, in some cases, remaining budget deficits reflect in good part the sluggishness of economic activity, rather than a structural imbalance between receipts and expenditures, or the deficit could be readily financed from savings now abroad. The case for domestically led expansion seems particularly strong in Japan, given its enormous trade surplus and high level of domestic savings.

Japan is the second-largest economy. By every economic characteristic, it should also be able—in its own interest—to help lead the world toward more open markets, rather than feeding protectionist instincts in the United States and elsewhere. And, without in any way wanting to intrude upon your own debate about the wisdom of a free trade area with the United States, let me suggest that the direction of that initiative—looking toward reducing, rather than increasing, trade barriers—seems to me highly constructive. Specifically, it seems to me wholly consistent with the larger concept that, rather than yielding to protectionist pressures, we look toward means for widening and reinforcing the area for liberalizing the world economic order.

In that context—a reduced budget deficit in the United States, greater growth elsewhere, and open trade and investment—exchange rates can and should play a role in adjusting external imbalances. That is the point made by the finance ministers and central bank governors of the G-Five in New York recently, and there has been close cooperation in recent weeks among them in encouraging, through exchange-market intervention, some appreciation in other leading currencies relative to the dollar.

Important as that effort can be, however, it is no substitute for more fundamental measures. Indeed, large changes in exchange rates, without dealing with the underlying sources of imbalance, are not an easy or painless solution. They carry risks of their own.

I suspect no part of the world would reap greater benefits from a sustained growth in the industrial world, from more open trade, from lower interest rates, and from better aligned and more stable exchange rates than the middle-income countries of the developing world. But, to take advantage of that benign economic climate abroad, they will also need to make reforms at home.

By and large, those countries, concentrated largely in Latin America and on the western rim of the Pacific, maintained exceptional growth records in the 1970s and early 1980s. But in a large number of instances, that growth entailed very heavy borrowing from abroad—and much of that capital, rather than contributing to productive investment, in effect only replaced a outflow of their own savings. It cannot be entirely coincidental that countries that *did* manage to create a hospitable environment for investment and for effectively utilizing the savings of their own citizens are those that, in the 1980s, have been able to manage their debts most easily and have continued to grow.

I cannot help but be encouraged by the sense that many of the most important leaders of Latin America—and they are democratically elected leaders—have spoken out forcibly about the need for structural change, for more competition to spur efficiency, for more private initiative and investment and fewer government enterprises, and for more "openness," at home as well as in trade.

I know there is a long distance from recognition of a problem and from generalized statements of intent to practical policy changes—changes that mean more competition and departure from deeply embedded ways of doing business. I also know that, even in the best of circumstances, sustained growth by developing countries will require some margin of external financial support.

And the better-assured that necessary support, the easier it should be for the borrowing countries to marshal the will and the effort to make the fundamental policy changes needed at home. The frustrations and uncertainties implied by crisis management of debt can too easily divert attention from that fundamental effort.

Recognition of those interlocking needs of the heavily indebted developing countries—for structural change at home and for a margin of external financial support—is the essence of the proposals set out by Secretary Baker a few weeks ago. He called upon the World Bank and the official regional development institutions—notably the Inter-American Development Bank in which Canada is a leading participant—to more actively provide some of the needed finance in the form of relatively quick disbursing loans.

Those institutions are financially capable of responding to the need. But the finance can only prudently be made available as countries in fact undertake the policies needed to encourage and sustain growth—growth that over time will ease the job of servicing the debt. The needed structural changes could affect many different aspects of economic life—modernization of agriculture, privatizing government enterprises, liberalising imports, market-oriented pricing—depending upon the needs and circumstances of individual countries. Moreover, close attention will continue to be required as well to the need to contain excessive budget deficits and to maintain appropriate monetary and exchange rate policies, the kind of thing with which the IMF has been so active. And both policy changes and finance will have to be tailored, case by case, to the specific requirements of particular countries.

In such circumstances, the international banking community could be expected to do its part as well. The banks with large loans already outstanding, have, of course, a lot at stake. Years of good growth, growth that can be sustained without the kind of massive injections of new money characteristic of the 1970s and early 1980s, would be the best possible solution to the debt problem. It would, at one and the same time, reduce the interest burdens of the borrowers, relative to the size of their own economies, and reduce the exposure of banks, relative to their capital and assets. But, for a time, that growth in most of the indebted countries will require some moderate availability of loans beyond what can reasonably and equitably be supplied by official sources.

The challenge is clear. Each part of the overall effort—by borrowers, by international institutions, and by banks—is essential to the success of the whole. And it would be unrealistic to anticipate that any part could proceed for long without the support of the others.

All of that implies a very large cooperative effort. Can a large number of banks from many countries, with different exposures and particular interests, develop a common approach responsive to the needs and reflecting their basic community of interest? Can the borrowing countries themselves develop policies that will, first of all, command the confidence of their own citizens, stop capital flight, and build sustained growth? Can the international institutions effectively encourage and assist that process, acting in the interest of world development and growth?

It's obviously a tall order—but neither are we starting with a blank piece of paper, building from scratch. We have by now a lot of experience in dealing with the debt problem, and some concrete successes.

I can only be encouraged by the initial responses to Secretary Baker's initiative. Clearly, much more must be done to flesh out the concepts, and to make them an operational reality.

But we also know that adversity clarifies choices, and minds. For better or worse, the yeast of change is at work, in Latin America and elsewhere.

The enlightened self-interest of borrowers and lenders alike seems to me to point fundamentally to the benefits of a cooperative effort.

In the end, the success of that effort, like so much else, will depend upon the world economic climate. The prospect for sustaining growth and working toward lower interest rates in the United States—and in Canada, too—rests on maintaining the progress against inflation. The prospect would be greatly assisted by clear and effective action to reduce our budget deficit in the United States, and by yours as well.

But other industrial countries need to help carry the torch of growth. And those in the strongest external position can, by opening markets, help us all resist the siren song of protectionism. All of that, more certainly than any intervention in exchange markets, would help assure a better international balance and well-aligned exchange rates.

This is a time of opportunity—but of danger as well. We can't expect perfection in the timing and execution of every policy. The world is too uncertain, and our abilities too frail, for that.

But we don't need perfection. What we do need is a strong sense of the right direction—and I think we have that.

We need to realize how the actions of each country fit into a coherent whole—and I think we are gaining that.

And, of course, we need practical action. That's the hardest part. But there is too much at stake to fail to carry through.

And so long as we understand that we are dependent on each other—the elephant and the acrobats together—I will remain confident of our success.

Thanks of the meeting were expressed by James B. Pitblado, President, The Canadian Club of Toronto.

Sondra Gotlieb
Author and Columnist

WIFE OF. . . .AN IRREVERENT ACCOUNT OF LIFE IN WASHINGTON

October 31, 1985

The President
Harry T. Seymour, Chairman

Mr. Seymour

Distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today Sondra Gotlieb, author and columnist and wife of our Ambassador to the United States.

The Wall Street Journal of Monday, July 29, 1985, featured two significant headlines: First, "Canada's top envoy to Washington cuts unusually wide swath. . .hard work and good parties give Allan Gotlieb access to Capitol's powerhouses," and, second, "How a famous Canadian wit battles against the pretensions of Powertown."

From the time Sondra Gotlieb arrived in Washington with her ambassador husband, Allan Gotlieb, we knew relationships between Canada and the United States would never be the same. Her wry humour and irreverent pronouncements soon captivated many Washingtonians.

Within eight months of her arrival in December, 1981, the headlines in the press read, "Envoy's outspoken wife adored in Washington." Not so in the House of Commons. The then Conservative External Affairs critic Sinclair Stevens criticised her "Dear Beverly" newspaper column—letters to a fictitious composite of her girlfriends in Canada—for "poking fun at the U.S. Establishment."

Born Sondra Kaufman in Winnipeg in 1936, she married Allan Gotlieb in 1955. They have three grown children—Rebecca, Mark and Rachel. We are pleased to have Rebecca with us today.

After tours of duty of four years in Geneva and twenty years in Ottawa, the Gotliebs arrived in Washington virtually unknown in December, 1981. They had prepared themselves masterfully, however, for the new appointment. To Ottawa's Establishment, Sondra Gotlieb had been ". . .the quintessential political wife: popular hostess, social-column name, informal wit, food expert, mother of three, wife of the top foreign-affairs bureaucrat. . .her parties were legend—not for refreshment but for the guests, the cream of the city's power structure and cultural life."

To Washington's Establishment, the virtually unknown Sondra Gotlieb soon became an outspoken hit with the American media for such featured quotations as: "For some reason, a glaze passes over people's faces when you say Canada. . .maybe we should invade South Dakota or something."

Notwithstanding this breakthrough in relations, "to be Canadian was to be out," because Canada was perceived to be dull, dull, dull.

Undaunted by this unfair perception of Canada, the Gotliebs systematically proceeded to elevate Canada's profile. Sondra's "Letter from Washington" column, known as "witty, elegant and tart," continues to be widely read. In the June 26, 1984, column, Sondra wrote to her friend Beverly:

"Remember that you're sitting next to a job, not a person . . .You have to charm the powerful job. . .a job-that-influences-government-policies."

Canadian columnist Allan Fotheringham, who is based in Washington and is close to the Gotliebs, maintains that ". . .people go to the Gotliebs' parties knowing they'll come away with a brilliant insight from him and a goofy comment from her. . .but she's about as goofy as a fox. She knows exactly what she's doing. She is shrewd and insightful."

Ladies and gentlemen, it gives me great pleasure to introduce Sondra Gotlieb—author (and recipient of the 1978 Stephen Leacock Medal for Humour for her book *True Confections*), columnist, gourmet cook, celebrated hostess and wife of Canada's Ambassador to the United States, whom we were privileged to have address The Club on November 10, 1983. Mrs. Gotlieb will address us on the subject, "Wife Of. . .An Irreverent Account of Life in Washington."

Sondra Gotlieb

Canadians often ask me, what questions do Americans ask me about Canada? Question No. 1: What happened to Margaret? Question No. 2: Is Quebec separating? Is Alberta separating? Is Nova Scotia separating? I don't know why we got Nova Scotia in the act, but that sometimes happens. And, question No. 3, now no longer is a question, it's more of a little bit of a smirk: What happened to the Blue Jays?

You know, Canadians also ask me if Americans think it's wrong for the wife of an ambassador to write columns in the Op-Ed page of the Washington *Post*. Well, I think we have to distinguish between dignity and stuffiness. I write humour columns. I don't write political columns. I don't write about Canadian politics. I don't write about American politics. I do write about the effects of power, the temporary power and temporary status upon people in this town—Powertown. About Mister Secretary, powerful jobs, White House people, senators, and even wives of ambassadors. The thing I have to stress is that it's all temporary and I think this temporary business makes you laugh at yourself and makes other people laugh at themselves, and it makes them laugh at my columns. I get lots of letters from Americans saying, "I thought wives of ambassadors were remote and stuffy people, and you have proved to us that you're just like us. You are human, and the silly things that happen to everybody, happen to you—only four-fold. The incidents in this book, "Wife of. . .", incidents that happened to us, whether Allan, scrubbing the floor in Palm Beach with Prell Shampoo, and me wandering around in my nightgown at the Pierre Hotel at four o'clock in the morning—that's all true. But, the characters, such as Popsy Tribble, the Washington socialite, the great destabilizer, she is the one who is always telling me to strew my dinner table with jasmine and things like that. All of these people are composites. There's no one person involved.

Now, Popsy Tribble is a socialite, and try to explain to people in Washington that in Canada we have socialists, but in the United States you have socialites and there is a big difference between them. Popsy Tribble wears Oscar de la Renta clothes and she is always telling me I'm doing things wrong, and she is in this book.

Lionel Portant, the world's most famous media star and columnist, is in it, too. He's the power of the press. Mister Secretary would say, "He is power without responsibility." Sorry, Mr. McGarry. But, he figures largely in my columns, too, and I think nobody pokes enough fun at the press, and I feel I could do that. The press is very powerful in Washington. It's the only permanent power in Washington; everything else is transient.

I just want to tell you that, in my book, these columns are really harmless. In my book, I describe the launch of the space shuttle and I describe it the way my Auntie Zora in Winnipeg makes an omelette, so I can't think of anything more innocuous than that. Well, they're not innocuous; they're a little bit daring.

Let me tell you how I became "wife of. . .". In Canada I was a writer. I wrote for fifteen years before I went to Washington. I was known as Sondra Gotlieb the writer, I think. When I went to Washington, I was invited to a luncheon and there were sixty ladies at that luncheon. A lot of them had jobs. We all had to stand up and we were introduced as the wife of the Attorney General; the wife of the Nuclear Regulatory Agency; the wife of the Secretary of Energy; and I, for some reason, was introduced as "wife of Canada," coming right after "wife of Peru." And then, I just found it much easier to say I was the wife of the Canadian Ambassador than having to explain, "My name is Sondra Gotlieb and I used to write books in Canada," because there are thousands of different kinds of people you have to meet. It's easier for them to identify you and identify your country with you.

I tell you, they do not send wives of ambassadors to charm school. I had no diplomatic training before I became an ambassador's wife. I was in Geneva between 1960 and 1964, where Allan was a Third Secretary. I was twenty-two years old, and I had just lived a year in Oxford and a couple of years in Ottawa, and I just didn't know anything about diplomacy or protocol. We were invited to something called a Rhodes Scholars' Dinner in France. Allan was a Rhodes Scholar and the few people there were also Rhodes Scholars, and it was a small but exclusive company. There was a Lord on one side of me, and there was a famous Senator on the other side of me and then, there was somebody who, I guess, was a Third Secretary about Allan's age across the table with his wife, who happened to be the daughter of an English Marquis (Is that the way you pronounce the word?) and I was very impressed and intimidated by this august company.

I didn't begin to relax until the port and nuts came about, and I wasn't used to wine and I drank some of that port and the port was sweet and it was old, and I began to talk a lot. I cracked a few nuts, and I noticed that everybody had stopped talking and they were looking at me. Then, I noticed my husband, who was sitting across the table going like this, as if he had a funny tick in his neck, but I was too relaxed—for once I wasn't going to pay attention to him.

Finally, the Marquis' daughter rose and gave me a dirty look and left the room and all of the men stood up and I was sitting there with my port and nuts. Finally, the Senator said to me very kindly, "Mrs. Gotlieb, the ladies usually leave the gentlemen alone with their port and nuts." So, I went. I just fled and I went into a little anteroom, and there was the Marquis' daughter, who was the wife of the New Zealand Third Secretary, flicking a newspaper and she said:

"You were the senior person there, the senior lady. You were supposed to leave first."

So, I was really floored by this. I didn't know anything about that sort of protocol between Third Secretaries' wives and I sat there for ten minutes in humiliation.

Then, I decided to go to the bathroom and this was in France and you know it's the same bathroom for men and women, and, as I was washing my hands, Allan and the rest of the men walked in and Allan said: "Oh, no, Sondra! You're washing your hands in the urinal." So, it's kind of on-the-job training. I was only twenty-two.

Oh, and then when I arrived, of course, I had never been an ambassador's wife. I had been a Third Secretary's wife, and in Ottawa I didn't give these lavish parties you talk about. They were the kind of parties where everybody stood up and dropped chili on their trousers and I didn't care whether the Prime Minister, whoever the Prime Minister of the day was, sat on the lowest step or the top of our staircase. It was very informal type of entertaining.

One of my predecessors said to me before I came:

"Sondra, you know, before I went to the Canadian Embassy in Washington, they were not writing out the place cards by hand."

So, of course, I didn't tell her that this was news to me, about these handwritten place cards, but that was the one thing that I knew. It was the *only* thing that I knew, and, when I arrived, I was greeted by a Social Secretary, a Butler, an Upstairs Maid, a Downstairs Maid, a Chef, and a Portugese Houseman (and it took me three years to figure out what his duties were). And, the Social Secretary's first question to me was: "Do I have to write those place cards out by hand?" and I said, "Of course, you do." Then, the Butler handed me keys and I said, "What are these?" and he said, "These are Madam's keys." He was kind of gloomy and Spanish and he's gone and most of the staff has gone. I replaced all of the staff. He took me down to the storeroom, and I thought, "What's in there, caviar, foie gras?" It was ten cans of peas and a bottle of ketchup. So, I threw away those keys. Then, he gave me another key. And, I said "What's that key?" and he said, "That's the key for the thermostat. Only Madam can touch the thermostat." Well, ladies and gentlemen, this was not my idea of power, being the only one allowed to monkey around with the thermostat. So, I threw away that key and, to this day, I do not know how the thermostat works.

Popsy Tribble came over the first week I was there and told me that Canada wasn't chic, and she opened up a newspaper or a magazine that I had never heard of before called "W" which is an extension of *Women's Wear Daily* and in the column of The Arts, between the Stuttgart Ballet and the Moscow Government, was Canada—we're in the outs. She said: "If you want to be in and you want to be chic in Washington, you have to have a tennis court," because we don't have a tennis court. She said the "worst thing to have in Washington is a swimming pool, because it's very middle-class, and anybody who is anybody makes their swimming pool into lily ponds and pretends it's not a swimming pool." So, we have a nice swimming pool. We have never been able to get anybody except ourselves to come and swim in it, because everybody else has a swimming pool. But, they all ask us one thing: "Can we come and play in your tennis court?"

The Vice-President, and Kay Graham—they all like to play on people's tennis courts—and so far the Canadian Government hasn't built us a tennis court, because we don't play tennis.

Let me tell you why embassies entertain. An embassy party is not supposed to be fun. It's an extension of the working day. There are one hundred and thirty embassies in Washington. We are all rivals for the powerful jobs, the close-to, the senators. We are all rivals for their attention. Ours is a bilateral relationship with the United States. So, each embassy sort of works on its own.

We hardly ever entertain other ambassadors. We go after the Americans. I mean, how do you know whom to entertain? Whom to go after, and whom to have come to your parties?

Power is so divided in the United States, in Washington. You have Congress. You have 550 Congressmen, 25,000 staffers. You have the White House. White House people are constantly changing. You have the Mister Secretaries. The Secretary of Agriculture has his own bureaucracy.

You also have lobbyists. There are 25,000 registered lobbyists in Washington and they are very powerful people. They write the Bills for the Congressmen. They actually do that. The K Street lawyers and the lobbyists, they do both jobs and are in and out the maze of Congress every day.

And, I can tell you, the average Congressman does not care about the foreign ambassadors, because we can't contribute to his campaign fund and we can't vote for him, so why should he care about Canada? So, we have to sort of get at Americans through the back door. But the thing is, it's the same for everybody.

Let me just give you an example. I met a very important Senator at a large party, and I said, "Senator, what are you doing at this party? Wouldn't you rather be home, putting your feet up?" He said, "Little lady, (he's from the South) I've been chasing four fellows for the past three weeks. They haven't answered my phone calls, and I've cut three deals tonight at this party and that's why I'm here."

And, that's why embassies give parties.

We are not only accredited to Washington, we do travel throughout the United States. But, I never get to see places like the Grand Canyon. It's always from one head table to another. In California on a rather exhausting tour, we found ourselves, or at least I found myself, in a beautiful suite in San Francisco in the Clift Hotel. Allan was supposed to meet the then-Governor, Gerry Brown, in San Francisco somewhere. Well, I had ten days' laundry in the bottom of my suitcase and it was afternoon, so I took out all of the socks and the stockings and I washed them out and I spread them all over the beautiful Chinese chairs in the suite in the Clift Hotel, and I was in my bathrobe in bare feet. Just then, there was a knock at the door, and I opened the door and there was Governor Gerry Brown with two Secret Servicemen. They said to me, "Who are you?" and, just before I could answer, I could see Allan veering around the corner with his people. He said, "Sondra, don't you ever read your program? The meeting is in the suite." He said, "Get rid of all of that stuff." So, as gracefully as I could, I swept up all the laundry and I disappeared into the bedroom. Allan came in, and said: "You'd better say hello to the Governor. Get dressed, put on your high heels." I don't know why it is, but wives of ambassadors are supposed to wear high heels. Well, I got dressed up, put on my high heels. Gerry Brown and I looked at each other as if we had never met before under any other circumstances. We shook hands and I went back into the bedroom while they had their meeting.

Well, it wasn't worth my life to turn on the television, because that would interrupt the talks. I had left my book in the other room. So I lay there and stared at the ceiling and I thought, "Well, that's part of being the wife of the Canadian Ambassador to the United States—and I don't mind it one little bit."

The appreciation of the audience was expressed by William Whiteacre, a Director of The Club.

Pierre Berton, O.C.

Author and Broadcaster

THE LAST SPIKE—100TH ANNIVERSARY

November 7, 1985

The President
Harry T. Seymour, Chairman

Mr. Seymour

Distinguished guests, members and friends of The Empire Club of Canada; It is my pleasure to welcome as our guest speaker today Pierre Berton, celebrated author, journalist and broadcaster.

Maclean's magazine of March 5, 1979, stated:

"Journalists and academics agree his three best books were *Klondike*, *The National Dream* and *The Last Spike*. In the latter two, he strung together an exhaustive history of the railroad and a social history of the country, introducing new material (mostly on the surveying of the railroad) that delighted historians. They are clearly the best books written on the subject, says University of Toronto historian Michael Bliss. . ."

Our celebrated guest speaker today is making his fourth appearance before The Empire Club of Canada, a measure of the high esteem in which he is held by the members of The Club. Indeed, Charles Templeton summed up our guest speaker perfectly when he said: "The truth is, Pierre Berton is Mr. Canada."

Born and raised in the Yukon, he worked his way through the University of British Columbia and graduated in 1941 with a burning passion to be a newspaper reporter.

From the Vancouver *News-Herald*, where at 21 he became that paper's youngest-so-far city editor, Pierre Berton successfully launched his career, which over the years has involved him in almost every form of communication: managing editor of *Maclean's* at age 31; sketches for the stage; plays for radio; documentaries for radio, films, and television; a daily newspaper column; a musical comedy for the stage; thirty books; Front Page Challenge (TV); and, The Great Debate (also on TV).

Years ago, Pierre Berton staked out the Canadian past as his personal goal and he has been pursuing it ever since: from the Klondike–to the CPR–to the Dionnes–to the War of 1812. For his over-all contribution to Canada, he was inducted as an Officer of the Order of Canada in 1975. For his outstanding contribution to Canada history, he is the only Canadian to win three Governor General's Awards for creative non-fiction. For his contribution to humour, he was awarded the Stephen Leacock Medal in 1960—the first year he spoke to The Club.

He holds eleven honourary degrees, the most significant being that conferred on him by his *alma mater*, the University of British Columbia, in 1985.

Mr. Berton and his wife Janet have eight children and reside in Kleinburg, Ont.

Ladies and gentlemen, it gives me great pleasure to introduce Pierre Berton, celebrated author, journalist and broadcaster, who told us all there is to know about railroads in *The National Dream* and *The Last Spike*, and who will address us on "The Last Spike—100th Anniversary."

Pierre Berton

It's all in the book, you know. I could just give you the book and you wouldn't have to come. But it's really a significant day today, isn't it? Exactly—almost to the minute—exactly one hundred years ago (because it's three hours earlier in B.C.) on a cold, wet morning that they drove that spike, and they photographed that ritual. And, as I have written, and as many people have said, it has become the best known and perhaps the most significant photograph in Canada. Actually, there were two photographs—in fact, there were four: there were two of Donald Smith, one in which he's holding the mallet up like this and the second one he's actually touching the spike with the mallet; and then there were two others that were taken after the big shots had left and all the workmen, who really built the railroad, took their version of the driving of the last spike. They probably drove it a little better than Donald Smith because he bent the first spike and they had to take it out and get another spike. Frank Brothers, who was the roadmaster, had tried to get the bent spike for himself but Smith, who was a very canny Scot, said 'Just a minute, I want that.' and he seized it and put it in his pocket: and he had strips of it taken off and made into jewellery for wives of the directors of the CPR. Directors of the CPR in those days got that kind of 'perk'.

But we don't know what happened to the other spike. It has vanished. A lot of people claim to have it, but I have seen no really hard evidence that it actually exists. It was on somebody's desk for awhile—I think Shaughnessy's desk. Somebody just lifted it. A woman in Yellowknife said she had it and her claim was reasonably interesting, but we can't prove it. So the last spike has been lost but the memory has not.

One of the reasons we look at that picture as a significant, seminal photograph is that it represents something unique that we did. It's fascinating that every country has at least one epic in its history. For the United States, I would say it's the Revolution and the Civil War; for Great Britain, the Norman Conquest and Dunkerque; for France, the French Revolution; for South Africa, the Voortrek of the Boers; for China, the Long March.

But we're the only country that has an epic. Nothing involving death, violence, or revolution—but something positive. The building of a railway.

Every time I heard people say we should shut down immigration and not let anyone else into this big, empty country, I always think of the CPR, which was built largely by immigrants at every level. The men who financed it were Scots—George Stephen and Donald Smith. The men who did the actual planning and building were American. Onderdonk, who brought in the Chinese and built the British Columbia section of the line, was an American. The chief auditor was an American. The man who discovered the Roger's Pass was an American. The superintendents in the western division were Americans, and so were the conductors.

Now it's interesting, however, that these Americans were brainwashed by building the CPR into becoming Canadians. Van Horne, in becoming a convert, was much more of a Canadian and a national zealot than people born here. At the time of the Reciprocity Treaty, Van Horne announced that he was a "Chinese Wall Protectionist." We need him around now! He said, "Not just in trade, but in everything. . . I'd keep the American idea out of this country." Shaughnessy became Lord Shaughnessy and Asquith (British statesman) tried to get him into his cabinet because Lord Shaughnessy was a staunch British Imperialist. And so on down the line.

The contractors who built the railway were very largely Irish, some Scots. People like Herbert Holt, for instance. The people who actually did the slugging, the hard work, were Americans, Irish, French Canadians, Italians and, of course, Chinese. They were the vast army of tens of thousands of men who drove the nails, drove the spikes, and laid down the sleepers. They were called "navvies."

The Chinese are interesting because people say, 'Well, the CPR was built by the Chinese.' As a matter of fact, that's totally untrue. The CPR was not built by Chinese. The British Columbia section, which was a government section, which the CPR had nothing to do with, which was started before the CPR company was formed, was built by the Government contractor, Andrew Onderdonk who brought in the Chinese. But they did not work on the CPR line. The

CPR took over the Government section once it was finished. When the last spike was driven, it was the Onderdonk section that was joined to the rest of the CPR's western line.

The other misinformation about the Chinese is that they were brought in as serfs or slaves. That's not true. They were paid, but not as well as the whites. White labourers—who did a different kind of work, however—got a dollar and a half a day; the Chinese got a dollar a day. Nor were they indentured. They were brought first up from California, where they had been building the Central Pacific and Union Pacific—about 8,000 people—and then they were brought over in about ten shiploads from Canton; which is why all the Chinese food in this country for so many years before World War II, was Cantonese food.

They paid a percentage—I think it was 2-1/2 per cent—to the Benevolent Chinese Society that looked after them; and it was very important because the Chinese did not speak English and did not eat Canadian food. They would cook their own food, which is one of the reasons that they were so valuable to the railway; they could pack up and move 25 miles—2,000 Chinese in 24 hours—and it would take a week to move other people because the Chinese cooked their own rice on the way. But they performed a significant job for Canada and it's too bad that, in British Columbia especially, but right across the country, there was so much bigotry involved with the oriental immigration. I hope we can learn a lesson from that. We wouldn't have the railway in B.C. without the Chinese. But B.C. was very much opposed to them; wouldn't give them the vote; wanted them all to go back to China. What they said about the Chinese is what they've said about every immigrant group and most welfare recipients: that they were lazy, that they didn't want to work, they were a drug on the market, they were shiftless and they were dirty. None of this was true. They were clean, they were hard workers, and they gave a lot to this country. All the contractors had nothing but praise for them.

So, in one way or another, the CPR had an enormous effect on this nation, and I'd like to just sketch a couple of the effects. One of the things that the CPR produced, unfortunately, was western disaffection with Eastern Canada. That's partly the fault of the CPR but more the fault of the Government, and largely the fault of the Canadian Shield. You see, in those days, you couldn't get to the west unless you went through the United States and most people who went to the United States didn't bother going back up north to the Red River; they stayed in the States, because the Shield was in the way. . .seven hundred miles of rock, three hundred more miles of muskeg. It was considered insane to build a railway across that shield. Now, John A. Macdonald said to George Stephen: "You must build an all-Canadian railway." The original idea was that the railway would go through the States. Macdonald said, "No, we want our own railway," and Stephen said, "All right." Stephen was the president, and financier, and a financial wizard of the first order. He said, "We'll do it, but, if we do it, you've got to give us something in return. You've got to give us a monopoly in the West for ten, fifteen years. We don't want any other line to the border south of the Canadian Pacific because they'll link up with the Northern Pacific or the Great Northern or the other American lines, and we'll be out of business. We want a monopoly." And that enraged the people in the West, and I'll tell you why: because the people who got that contract with the monopoly clause in it was made up of the same gang who had been bleeding the merchants in Winnipeg white because they had a monopoly on the railroad and river traffic on the Red River. Jim Hill, a Canadian from Rockwood, Ont., who had gone to St. Paul; Norman Kittson, a Canadian from Quebec who was a fur trader; and Donald Smith, who was later Lord Strathcona, and was the key man in the Hudson's Bay Company—they managed to control the traffic on the Red River. The Manitoba merchants got upset and they built two boats to compete with "The International," which was the Kittson line: one was called "The Minnesota" and one was called "The Manitoba." These men were pretty tough cookies: They didn't stand for that nonsense for a minute. They bribed the customs people at the border to hold one of the boats for the customs and then, when it was finally released, Norman Kittson the tough old trader who was running "The International," simply rammed "The Manitoba" and sank her, right to the bottom! And that was the end of the merchants' line! After that happened, the freight rates went sky high and so the westerners were very upset when this same group of people, with the addition of a couple of others, turned out to be the guys who had got a monopoly clause on a CPR contract, and were again believed to be holding them up for sky-high freight rates. Now they had to charge pretty high rates because it was an expensive business building the railway, as everybody found out—far more expensive than anybody had expected. That was the beginning of western disaffection. That's why, even as late as the 1930's when hail fell on the farm, the farmer would shake his fist and say, "God damn the CPR."

The railwaymen were blamed for a lot of things not their fault; they were blamed for everything until recently. In fact, I remember when I was researching *The Promised Land*, I came across a quote from Clifford Sifton, who wrote to a friend, "Don't let this man run for office. He works for the CPR. Can you imagine anybody trying to get elected in Manitoba running for the CPR? He'll lose his deposit." Which was true.

Now the other influence the CPR has had is quite different; it's the population influence. It's a very interesting thing, that for ten years, the railway was surveyed backward and forward by Sandford Fleming and his people for the government. This was before the CPR was formed in 1881; from 1871 to 1881, the Canadian surveyors were crawling all over this country, in fact, mapping the country for the first time. And it was generally agreed that the best possible route lay along the valley of the North Saskatchewan; following the old Carlton Trail from the Red River up through Battleford and Prince Albert to Fort Edmonton and then down to that easy pass in the mountains, the Yellowhead Pass, to the Columbia and the Fraser rivers and to one of the ports available on the Pacific coast—perhaps Bute Inlet, perhaps Burrard Inlet, or perhaps farther north around Port Simpson, which is now Prince Rupert. It never occured to anybody that the railway would take any other route.

When the CPR company was formed, the directors in St. Paul, all of them Canadian, sat around and decided to scrap ten years of surveying—to thrust that route out of business and to opt for a southern route right close to the American border and right through the Palliser Triangle, which is supposed to be a desert. But there was a botanist, John Macoun a self-taught man, who had gone out to the Palliser Triangle in one of the wet years (the thing about the Canadian prairies, as you know, is that they have droughts followed by rain) and he had seen the Palliser Triangle when it looked great. So he told them they could get through there, and they did. But why did the CPR change the surveys? Why did they do their own surveys? Why did they head off for the mountains without even knowing if a pass existed in the Selkirks—driving steel right at that wall of mountains? Well, this is supposed to be a mystery, but I don't think there's much mystery about it. They did it because they wanted to control the land, which was virgin land. They did not want to deal with speculators who would buy up land, and who had already bought up land along the original route, and were certainly going to try to hold the CPR for every dollar they could get. The CPR didn't intend to allow that.

And there are some wonderful stories. This began in Brandon: A man called McVicar had a farm in Grand Valley and General Rosser, who was then the engineer, rode out and said to McVicar, "We want to buy your land. What's the price? He offered him a price and McVicar was going to take it until his friend said, "No, this is the CPR, ask for more." So McVicar raised the price about $10,000 and Rosser looked at him and said, "I'll be damned if there'll ever be a town at Grand Valley"—and there never has been. He drove off to the Brandon Hills and formed the town of Brandon in what was virgin territory and the CPR, by reason of its contract, was able to get a great chunk of land around its railway station and that's where the town grew up. Wherever the railway station was, that's where the town was.

There's a wonderful story of Regina. Everybody thought that the capital of the Northwest Territories would be in the beautiful Qu'Appelle Valley, one of the most gorgeous parts of the Prairies. Instead, it turned out that it was going to be in one of the ugliest parts of the Prairies, as flat as a deal board—no trees or anything. This is where they built Regina. Now the Governor of the Northwest Territories, Edgar Dewdney, and some of his friends, had bought up a great chunk of land where they were certainly going to put all the government buildings, which they would sell to the government and pocket the money. And a big struggle took place; the CPR was invited to place its railway station on Edgar Dewdney's land and the CPR said, "No". They put their railway station two miles away and they were the ones who profited from the land because that's where the town grew up. The government is still two miles from the railway station in Regina, or what's left of the railway station in Regina, and the town straggled along this two-mile stretch, not knowing where the centre of town was—when it was quite clear where the railway station was.

In Calgary, the town was on the east bank of the Elbow River until the CPR put the station on the west bank and everybody on the east bank said, "We don't care where the station is. We're not going to move." Within a week, they were all moving across the river to where the railway station is, which is where the Palliser Hotel is today in Calgary.

A man called Farwell owned 175 acres of land on the Columbia River, just where the CPR would emerge from the Selkirk Mountains and he thought he had a great deal. He was going to sell that land to the CPR. The CPR wouldn't buy it. They put the railway station on the other side of the Columbia River and there was a big lawsuit, which Farwell won. But it didn't gain him much because nobody built on his land. They wanted to build on the other side of the river which the CPR did not call Farwell; they called it Revelstoke—and well they might. They named it after the senior partner in Baring Brothers, which at that moment was raising, or underwriting, the CPR's bonds. That's why George Stephen isn't in the driving-of-the-last-spike picture; Donald Smith is in the picture, while George Stephen is over in London raising money—a much more sensible thing to do than drive last spikes.

Van Horne was a brilliant negotiator and a very good poker player; he was also an amateur geologist and a good one; a very good painter; a superb caricaturist; an amateur magician and conjurer; an expert on Japanese porcelain; and in every sense a broad gauged man who said he ate all he could, drank all he could and smoked all he could, and didn't give a damn for anybody. He went out to Vancouver, which didn't exist then; he went out to Burrard Inlet, and negotiated with the British Columbia government and stole it blind. He had all the American abilities at negotiating. Van Horne got 6,000 acres, the entire Vancouver waterfront from the Hastings Mill to Stanley Park; he got a great chunk of land now called Shaughnessy Heights; he got all sorts of deals because he said that, unless he got them, he wouldn't bring their railway in. But the railway had no other place to go. He knew that he couldn't build it at Fort Moody, which is on the side of a cliff. He couldn't get marshalling yards in there. All the time that he was dealing with these British Columbia amateurs, he was holding an ace in the hold. . .and they didn't know it. And the CPR, through its Marathon Investments right across this country, has done very, very well, out of real estate around their railway stations and elsewhere. The coming of the railway made land profitable: it started a land boom.

Now, so much for the history. The real question is in the picture. There they all are, standing around, waiting to drive the last spike: Smith is about to miss the first time and bend the first one: Van Horne has his hands in his pockets and seems to be saying, "Let's get going. There's an engine waiting for the Pacific and I'm tired of this." He made a very short speech: all he said was, "All I can say is the work has been done well in every way." End of speech. (We should have more Van Hornes) and he also said that the spike should be of iron, not gold—as some people thought the Americans had driven a golden spike when the Union and Central Pacific were joined together. He said, "The spike will be plain iron and anybody who wants to see the ceremony will have to pay full fare." Well, he had to say that because the company was broke. It was only saved by Louis Riel who, as a result of his revolution or rebellion or uprising, the CPR was able to bring the troops out very quickly across the gaps in the line of the Canadian Shield and quell the rebellion; and for that reason, Parliament was disposed to underwrite some more of their loans. Van Horne said they should have put up a monument to Riel, but they never did. I commend it for the second hundred years.

But why is this picture such a symbol in this country? It's in every school book, in ads; now here we are talking about it. Well, what the symbol says to me—and I think to most people subconsciously—is that this is a very Canadian thing that we're watching. This is a Canadian Project that differs from other similar projects in other countries. The railways in the United States were built purely for profit and I might say, without exaggeration, that they were built for greed. The major robber barons in the United States in the nineteenth century were the railway men. They got these railways and they milked them dry. They ran them into bankruptcy after looting the till and the evidence of that is easily to be found in books on the subject by Jay Cook and Jay Gould and many others.

The Canadian Pacific was built as an act of political will. The people who built the Canadian Pacific didn't rush to the Canadian Government and say, "Hey, give us a chance. We want to build this railway and make a lot of money."

The Government searched about and found these people and said, "Please, will you build a railway, and we'll try to help you. We need it to hold the country together." Stephen and Smith and Hill and all the others who were members of that original syndicate didn't need that railway for a minute; they had made their pile out of the St. Paul and Pacific of which they had watered the stock, and they were worth millions and millions. All they faced was four years of sheer economic hell. And it aged people like Stephen very badly. But they did it, because I don't think they could resist the challenge.

You have to remember the difference between this country and the country to the south. It's been the subject of most of my books. We are a different shape and the shape dictates what we are and how we operate. We are not the country that we look at on the map; most of that is empty. We're a 200-mile strip of population, 4,000 miles long; 90 per cent of the population lives within 200 miles of the American border. We're a long, thin country shaped like a railway, and even more important, the people are not evenly distributed along those 4,000 miles—they are in clusters. We are an archipelago of population islands, held together by various forms of communication and transportation; a country with regional islands, great distances and a small domestic market. What works for us does not necessarily work for the Americans and what works for the Americans does not necessarily work for us. They are a different kind of country; they don't have those kinds of problems down there. They have a large domestic market, a population that's spread evenly, and they do not have the barriers that we have: they don't have the angry ocean on both ends separating chunks of our country; they don't have three ranges of the highest mountains on the continent save for the Alaska mountains; they don't have the cultural barrier of the Province of Quebec; and they don't have a bit of the Canadian Shield and the muskegs and the rock. And so we are different people and we cannot use the American model when we set out to build something like a railway—or to build anything in the cultural or communications area.

That's why in this country, more than in most other countries—perhaps more than any other country—transportation and communication are so important. They are at the core of the country: the soul of the country depends upon them. That goes to the days of the canals. The Government has had to be involved in both those areas in this country, as it has not had to be involved in the States. The Government owned the canals, which were the only way in which Upper and Lower Canada were held together. And this mixed economy, this arrangement between government and private industry, is part of the Canadian scheme of things. It began with the canals, went on to the railways and the airlines, and it continues. Originally this country was held together by steel and wire, by 4,000 miles of rails and 4,000 miles of telegraph poles; and Macdonald saw that. Today we've expanded. We have other forms of communication, other forms of holding the country together: we have satellites; we have airlines; we have broadcasting. But culture is also part of it; culture communication is as important today as the railway was a century ago. That's why institutions that are semi-government and sometimes totally government institutions, are so important to us when they're not important to other countries: the Canadian Conference of the Arts; the Canada Council; Telefilm; the CBC; the National Film Board. All these are part and parcel of a pragmatic Canadian policy that goes beyond political lines and says we have to hold this very difficult system together; the beads on the string have to be held together by a string—and the string, which was once the railway, is now something more. We have to be held together culturally and physically and geographically and psychologically.

Macdonald's critics, in the days of the debate over the CPR contract, said to him: "It's silly to build a Canadian railway across that desert of shield. Let's run a lot of it in through the United States, about a thousand miles or more, through Duluth, south of Lake Superior." Macdonald said, "No" in a wonderful speech which Bill Hutt gave on the CBC's production of "The National Dream." He said, "No, *I will not have it!* The railway will be built our way. We will build our kind of railway and not their kind of railway."

Now, we are about to enter into new negotiations with the Americans. And everything, apparently, is going to be up for grabs. Everything that holds this country together is going to be on the negotiating table, because it is said we can't leave anything out—we must put everything on the table.

I don't understand why we have to put everything on the table. There are certain things, it seems to me, that are not negotiable in this country; and that is, the should of the Nation, the thing that holds British Columbia to Newfoundland, that makes us one, that gives us something that nobody else has. The question I ask is: Are we about to sell our soul for a mess of pottage? Again, the thing is, yes, it will be cheaper to put the railway through the States—it would have been a lot cheaper–and not as hard on the taxpayers. But the taxpayers in those days under Macdonald were prepared to pay for the problem of being a Canadian.

We are about to enter negotiations with people like Van Horne; the sharpest and best negotiators in the world, who have beaten us every time historically that we have come up against them in negotiations—on the Alaska boundary dispute right up to the Columbia River debacle in B.C., to the natural gas pipeline. They beat us—and I know well, because I wrote a book about it—on the whole business of film quotas. Some smart Hollywood negotiators came up and talked the Pearson Government out of a film quota system that would have given us a chunk of our culture, a film industry we could be proud of. We lost it.

And so, ladies and gentlemen, I say to you, as we celebrate that cold, wet morning with the snow dripping off the conifers in the Eagle Pass in the Selkirk Mountains at a place romantically named Craigellachie by two Scots immigrants. As we celebrate the driving of the last spike, which was the culmination of John A. Macdonald's National Dream, I hope that, in the next century, that dream will not become a nightmare.

The appreciation of the audience was expressed by John W. Griffin, a distinguished Past President of The Empire Club of Canada and of The Empire Club Foundation.

Her Excellency
The Rt. Hon. Jeanne Sauvé, P.C., C.C.
Governor General of Canada

OUR RESPONSIBILITY TO YOUTH

November 12, 1985

At a meeting of the Loyal Societies

Co-Chairmen
Harry T. Seymour
President, The Empire Club of Canada
and
James B. Pitblado
President, The Canadian Club of Toronto

Mr. Seymour

Your Excellencies, My Lord the Queen's Chief Justice of Ontario, Right Honourable, Very Rev., Hon. Ladies and Gentlemen, Consul-General, Gallant and Distinguished Presidents of the Loyal Societies, ladies and gentlemen: Every Armistice Day, The Empire Club of Canada salutes the fallen in our traditional Toast to the Valiant. This year, the salute will be given by MGen. Bruce Legge, the Colonel Commandant of the Logistics of the Canadian Armed Forces and the Chairman of the Metro International Caravan.

MGen. Bruce Legge

Mr. President, Your Excellencies, My Lord the Queen's Chief Justice of Ontario, Right Honourable, Right Reverend, Honourable ladies and gentlemen, Consul General, Gallant and Distinguished Presidents of the Loyal

Societies, Ladies and Gentlemen:

As you have just heard from the Chairman's formal introduction, the Loyal Societies always recognize the distinctions of our guests. Today, we remember the men and women who served Canada and the Crown to the utmost in our wars of freedom and justice. They gave everything to Canada's cause of opposing cruel tyrannies in the world wars and in Korea. They did not believe that "International law should be ignored by the evil and not enforced by the righteous."

What is there to say of the deaths of those for whom time stood still while they were very young? One of Your Excellency's most illustrious predecessors, the Rt. Hon. Roland Michener, volunteered for the Royal Air Force in Canada in the spring of 1918. This year he celebrated his 85th birthday as the President of the Masters Games.

What are we to say of those who served and bear the grievous scars of war, like your gallant predecessor, Maj. Gen. the Rt. Hon. Georges Vanier, who delighted to tell us how he joined the Regular Army in the 1920s.

> "My legal life was rather sedentary, and I seemed to be losing weight at a rather alarming rate. Therefore when the Royal Vingt-Deuxième Régiment was being reformed, I decided to return to the Army. So I went to Ottawa, where Sir Arthur Currie was then Inspector General of the Forces. I asked him to find a place for me in the regiment. He laughed at me—nicely, but he laughed. He said, 'You have lost a leg.' So I said: 'I know that. But don't you want a few officers with brains as well as legs?' What he really liked, I think, was my modesty. I left him without any expectations at all. We both laughed and we both knew, or I felt anyway, that there was no hope. But within three weeks I was appointed a second-in-command of Le Royal Vingt-Deuxième Régiment."

For those who volunteered and served where they were commanded, the Crown and Canada recognized their service, which might be described in the motto of Your Excellency's Toronto regiment, the governor General's Horse Guards, as *"Nulli secundus"* ("Second to none"). The Crown, veterans, and Loyal Societies are bound together by the words of a French maxim, *"La loyauté m'oblige."* ("Loyalty compels me.")

Quel est l'idéal principal des quatorze sociétés loyales ici représentes qui font honneur à Votre Excellence aujourd'hui? 'La loyauté m'oblige.' La loyauté m'oblige à servir et à ne pas être servi, ce qui est la tradition de la Reine du Canada, que vous, Votre Excellence, représent si bien personnellement ici.

It is loyalty that compels us—to serve as Governor General, as a member of the armed forces, as a member of the Loyal Societies, and as a Canadian.

Ladies and gentlemen, in the presence of Her Excellency the representative of the Queen in Canada and remembering the motto of Le Royal Vingt-Deuxième Régiment "Je me souviens" ("I remember"), would you please rise and drink with me the toast to the immortal memory of the valiant?

Mr. Seymour

I now have the great pleasure of introducing the Right Honourable Jeanne Sauvé, the personal representative of The Queen in Canada. Madame Sauvé is also the Commander in Chief and the Governor General of Canada.

Her investiture May 14, 1984, as the country's 23rd Governor General and the first woman to hold the post was a momentous event, breaking 116 years of Canadian tradition.

But significant firsts have been common occurences for Jeanne Sauvé. She was the first woman to become Speaker of the House of Commons; the year was 1980. In addition, she was the first woman federal cabinet minister from Quebec; the portfolio was Science and Technology, the year was 1972.

Madame Sauvé was born Jeanne Benoit in April, 1922, in

Prud'homme, Sask., a small town 30 miles northeast of Saskatoon. When her building contractor father, Charles, completed his construction projects there in 1925, the family moved back to Ottawa.

After a convent education and studies at the University of Ottawa and the University of Paris, Jeanne Sauvé settled into the fashionable society of Montreal in the late 1940's and the early 1950's, working first as an enthusiastic student organizer and later as a broadcaster and a journalist. In 1948, she married Maurice Sauvé, a businessman and former federal politician who once served as Minister of Mines and Rural Development. They have one son, Jean-François who, I am pleased to announce, is with us today. Welcome.

Breaking 116 years of tradition was one of the most comfortably traditional choices former Prime Minister Pierre Trudeau could have made. Madame Sauvé is bilingual, a superb hostess, and a mature, dignified public figure known for her discretion and diplomacy.

Of her vice-regal appointment, Madame Sauvé said:

"It is a great thing to be asked to symbolize a nation and its aspirations and to try to make the people of this country more conscious of their country."

Ladies and gentlemen, it gives me great pleasure to introduce Her Excellency the Right Honourable Jeanne Sauvé, who will address us on the topic "Our Responsibility to Youth".

Madame Sauvé

Mr. Chairman, Mr. Michener, My Lord Chief Justice of Ontario, Your Honours, Messrs. Presidents, distinguished head-table guests, ladies and gentlemen, mesdames, messieurs: Thank you very much, Mr. President, for those very gracious words of introduction.

It is, of course, a very great pleasure for me to be here, although I delayed it for nearly a year, and to address this joint meeting of the Empire and Canadian Clubs and the Loyal Societies.

Chacune de vos associations a un long passé. Leur importante contribution à la vie Canadienne provient de ce qu'elles se sont appliquées à promouvoir la connaissance intellectuelle et l'éveil aux réalités culturelles, s'engageant ainsi à défendre les grands principes du patriotisme et de la démocratie. En offrant des tribunes de la nature de celle-ci à des personnes de divers horizons en vue de permettre des échanges d'idées, vos organismes respectifs ont fait beaucoup pour stimuler le mouvement de la pensée et de la nouveauté à travers le Canada; tout cela a marqué de façon continue l'évolution et le progrès de notre société et de notre civilisation.

It is perhaps the fate of Governors General to be witness throughout their tenure to so much which compels them to opinion, yet to be restricted by the nature of the office in speaking about what they know. A predecessor of mine, who is present, once said that most of the time he was restricted to "Governor Generalities." However, it's the function of Governor General to have some substance. Surely it is worth exploring what he or she may stand for publicly, while keeping it above political controversy.

There is one topic about which I need not remain silent I am sure: a matter of such critical importance to this country that I have chosen it as the principal focus and preoccupation of my tenure as Governor General of this nation. You will recall that some of my predecessors to this office have, in turn, encouraged and promoted causes, such as the arts, energy conservation, the family, and so on.

I speak, of course, about the youth of this country: of the concern I have for the forthcoming generations and the fact that we, as the current leaders and authorities of the day, should take time from pursuit of our own ambition to nurture, encourage and provide real opportunities for those who will succeed us. This, in may ways, means jobs for the young unemployed.

Youth as a whole, I find, has relatively few champions these days. Society is perhaps still reeling in the wake of the rebellion of the Sixties and Seventies and the distrust that was engendered by that period of social upheaval. The more recent styles among young people, indicative of their very deep feelings, are perhaps no less bewildering. The first generation, to which I have referred, of course are no longer young, and we should have learned from that particular experience that the younger generation are entitled to their own means of expression and debate. However upsetting it may be, there is a time for reconciliation.

I must say I was very much heartened recently to hear of the concern His Highness the Prince of Wales has expressed for the young people of Britain. His unusually vocal support and—let's say it, let's admit it—the tremendous humanity he has displayed toward the plight of the young of his own country, will perhaps bring to the attention of the public in Britain and around the world the fact that this is a generation in crisis; that the burdens they will have to bear are to a large measure, inherited from preceding generations. And I have no intention of filling this room with a lot of guilt.

Critics are prone to argue that the problem of youth today is that they have been given too much, too easily, and have subsequently lost the will to work or the ambition to succeed. They were reared in a consumer-oriented society and were naturally influenced by the emphasis on materialism.

I believe, however, that, while technology has afforded them luxuries that were beyond our means at that time in our lives, they have had to pay a heavy price for the benefits of this progress—and at a cost that may not be as visible as their relative affluence.

I speak here of their opportunity to satisfy two very strong and universal spiritual needs of mankind, needs so vital to our sense of well-being that we will deny ourselves almost anything to attain them.

Put in the very simplest of terms, they are the need to feel you belong, to have a sense that there is a place where you do not have to deserve to come; and secondly, the need to become something, to realize some hope of achieving your potential as a contributing member of the society to which you belong.

I would think it far more difficult for a young person to achieve a sense of belonging in the world today than it was in previous times. With the greater mobility of the Twentieth Century and the trend away from permanence, many young people have lost the security of having roots in one location and with it the sense of continuity and identity within the community.

Changes within the family have had a definite impact on young people as well. Economic realities demand that parents concentrate more time and energy on ensuring the financial, rather than the moral or emotional, security of the home. The increased rate of separation and divorce, and the demands of the one-parent family, strand children in domestic limbo, while, even in the more traditional family settings, changes in the morals and values of society, coupled with the declining influence of morality and religion, have obscured the parameters of all expectations.

While social change and evolution is not necessarily bad, and, in fact, is a necessary adjustment to changing economic and environmental realities, it *does* produce a period of instability. In the midst of this transition, the development of a strong and secure sense of worth and identity is a more complex enterprise. In this contemporary search for belonging, we might find the reasons underlying the growing attraction among the young of such phenomena as cults, and an explanation for the intense and sometimes destructive loyalty that some teens feel toward their peers.

What are their chances of becoming successful? What promise have we given young people that they are welcome or even wanted in the mainstream of society? If having worked hard for an education, for instance, they simply do not have a job. We have fought very hard in our time and over the years to assure all young Canadians an equality of opportunity, firstly through the democratization of education, and later through our efforts to ensure that all men and women were free to pursue their particular ambitions without discrimination.

We have made great strides towards satisfying these two objectives, but other equally critical issues have been created in their wake. A good education no longer brings with it the assurance of employment. In an increasingly competitive market, the skills and talents that our young people have developed may not be needed. Statistics place one out of every five young people in the lines of the unemployed.

And they are understandably disillusioned with a system in which they wish to participate, but which consistently rejects them. Every time we turn a young person away, we deny him or her the fulfilment of that basic need to become something, to feel he or she has a value and a place in this society.

"So irrepressible in youth is the thrust to become," one specialist has warned, "that it will surface somehow, if not in constructive self-expression, then in wilful vandalism or defiant apathy or even suicide as an ultimate, tragic expression of self-determination."

Are the growing numbers of unemployed youth who turn to crime or try to dull their disillusionment with alcohol and drugs not a manifestation of this undeniable need of self-expression?

I am certain that I have told you ladies and gentlemen nothing new about the plight of the youth of this country, but it is a subject that I feel goes straight to the heart of every compassionate and enlightened Canadian. We have a real duty to accept our role as the mentors of this generation, and we must be willing to assume that responsibility at a very *personal* and *active* level if we are to ensure that the tremendous potential of our young people is not to be wasted. A generation might go by—and can we afford that?

The first step of that process is to alter the attitude that views young people only as dependents and somewhat peripheral to the mainstream of Canadian life. In many ways, it is the same plight we had when we were young, although expressed, of course, very differently. What must we do? Well, first of all, we must challenge them—not take it up for them, but challenge them—to take the responsibility for their future into their own hands and then, to the degree that we can, help provide them with the means and opportunities to make known their concerns and opinions to those who have the authority and legitimacy to act upon them.

In these past few decades, we have perhaps become too complacent, assuming that governments alone can create adequate opportunity for the youth of this country, especially in the field of employment. Governments have acted. Others around the world have acted. But all industrialized societies are experiencing the limits of government programmes. Can we not, as individuals, rise to this new challenge in our society?

Too often I have heard businessmen and women complain that, in these tough and competitive economic times, they cannot afford to hire inexperienced workers to fulfil their job quotas. They are either excess, or even worse, overqualified. How are we to cope? We have to begin experimenting with new and fresh ideas.

Some corporations have begun that process. They have decided, for instance, to hire above their needs, to readjust their priorities and expectations and assume a margin of risk, as an investment in the quality and dignity of the workers of tomorrow. Others, such as banks and credit unions, have already taken the initiative of offering interest-free loans to enterprising young people who want to set up their own businesses.

Some companies have responded to the current situation with job-creating projects that will, over the next five years, offer hundreds of young people the opportunity to get a solid three-year record of experience behind them. It brings no promise of permanency, but rather the hope that is engendered through a solid beginning, a chance to belong and to achieve, at a very critical and tenuous period of their lives. In this particular case, the unions were on side.

If there is one message that I wish to leave with you today, it is that our youth is ready and willing to take control of their destiny. How they will do it, through what means they will make their will known, and to what extent they will have the appropriate knowledge and skills to cope with the very difficult issues of tomorrow, will depend largely on them. But they need our help.

We are not necessarily responsible for their total future, but we can offer our own skills.

As I said at Rideau Hall to a group of corporate presidents that I invited particularly to talk about this very topic:

Bring your acquired management skills to the resolution of this very grave problem. Our responsibility to the future is far greater than we realize. If that future is to be one of promise and prosperity, it is essential that we inspire our youth now with the task of building on that which we have accomplished. We must guide them through example as well as rhetoric and in a spirit of compassion, tolerance, and humanity. They are ready to allow us into their new venture in a spirit of mutual exchange.

The appreciation of the audience was expressed by James B. Pitblado, President of The Canadian Club of Toronto.

John D. Redfern
Chairman and Chief Executive Officer,
Lafarge Corporation, and Chairman
Canada Cement Lafarge Limited

MEETING THE CANADIAN CHALLENGE

November 14, 1985

The President
Harry T. Seymour, Chairman

Mr. Seymour

Distinguished guests, members and friends of The Empire Club of Canada; It is my pleasure to welcome as our guest speaker today John Redfern, Chairman and Chief Executive Officer, Lafarge Corporation, and Chairman of Canada Cement Lafarge Limited.

Since joining the Canada Cement Company as a technical sales engineer in November, 1958, John Redfern has held positions of increasing responsibility, including Vice-President of Operations in 1974; President and Chief Executive Officer in 1977; President and Chief Executive Officer of the holding company, Lafarge Corporation, in 1983; Vice-Chairman and Chief Executive officer of the U.S. operating subsidiary, General Portland Inc., in 1984; and, Chairman of Lafarge and of Canada Cement Lafarge in February, 1985.

Limited by its domestic market position, Canada Cement, Canada's largest cement producer, acquired through a $396-million cash offer General Portland Inc. of Dallas, Tex., the second-largest cement producer in the U.S., in 1981.

Following a corporate reorganization in 1983, a U.S. company, Lafarge Corporation, headquartered in Dallas, became the parent of the two operating subsidiaries: Canada Cement Lafarge Limited and General Portland.

The reorganization, implemented in three distinct transactions, resulted in Lafarge Copée S.A. of France holding a voting interest of about 54 per cent. Subsequently, the shares of the parent company were listed for trading on both the New York Stock Exchange and the Toronto Stock Exchange.

In the fiscal year ended December 31, 1984, the first full year following the reorganization, Lafarge Corporation generated sales revenue of $927 million on assets of $979 million. Of the total sales revenue, Canada Cement generated 56 per cent while General Portland generated 44 per cent. A prolonged work stoppage at seven U.S. plants, however, resulted in 85 per cent of 1984 profits being contributed by Canada Cement Lafarge.

John Redfern, the architect of this somewhat unique corporate structure—a U.S. holding company, controlled from France, with operating subsidiaries in both Canada and the U.S.—was born in Ottawa, is married and the father of four children. He was educated at Carleton University in Ottawa, and obtained a Bachelor of Science degree in civil engineering from Queen's University, Kingston, Ont., in 1958.

In addition to his major corporate responsibilities in Dallas, Montreal, and Paris, our guest is a member of the Advisory Board, Center of Management Development, Northeastern University in Boston: the Board of Governors of Le Conseil du Patronat du Québec; and the Board of Governors of Carleton University.

Ladies and gentlemen, it gives me great pleasure to introduce John Redfern, Chairman and Chief Executive Officer, Lafarge Corporation, who will address us on the topic, "Meeting the Canadian Challenge."

John D. Redfern

Thank you, Harry, for your kind introduction, and thanks also to The Empire Club for the opportunity of addressing this distinguished audience, on a subject very much on my mind. Let me hasten to assure those of you contemplating a quick exit that my subject does not deal with the finer points of cement chemistry, nor the beauty of a limestone quarry at sunset.

My concern and frustration deal with the low level of appreciation we have for our current environment, and our somewhat gloomy expectations for the future.

Unfortunately, this preoccupation not only masks our present status but, more importantly, it prevents us from taking the steps necessary to properly plan and prepare for our future. We thus are becoming bystanders instead of actors, at a most critical time. The decision is ours: Will we simply do nothing, bemoan our fate and blame others? Or, will we be active participants in shaping our own future? Taking the opportunities and advantages that Canada has been given, and collectively turning this country into the place we feel it should be, is what I call "meeting the Canadian challenge."

The main ingredient that we appear to lack is an appreciation of *reality*. The major contributor to this deception appears to be the post-war period. This period in our country's evolution brought together a multitude of fortunate factors that created an exceptional economic and psychological environment not likely to be duplicated in our lifetime. Not wanting to believe this fact, we continue to reach back to that era as being "reality." Like children of affluent parents, not only are we expecting a continuance of this benevolent environment, but we also have developed expensive tastes and habits, while unfortunately having no real capacity to sustain ourselves at this level.

Hence, a period that should have provided a positive structure or base on which to build our future potential has instead left us with a legacy of expensive tastes, bad habits, and an illusion of reality. Unfortunately, that era of continued growth and prosperity also convinced business, government, and labour that each had all the answers. And, when you have all the answers, you don't need to listen to advice, or change your ideas. You carry on, comforted by your own rigid infallibility.

Until we exorcise these misconceptions from our collective psyche, we will continue to float in a world that disappoints us, as it does not live up to our imaginary standards.

How should *we* commence our efforts to see things as they as they really are? Perhaps we could start with the dictionary definition of the word "reality." It is defined as: "actual existence, true state of affairs, a real thing, an actual fact."

That seems simple enough, but, to apply some practical reality to the interpretation of reality, let me quote from T.S. Eliot (The Hollow Men): "Between the idea and the reality, between the motion and the act, falls the shadow." And, (Burnt Norton) "Humankind cannot bear very much reality."

These quotes provide some insight into the difficulty of first defining reality, then having it accepted.

Next, let me demonstrate that this defining and adjusting to reality affects each one of us.

Think back twenty years with me. We were so confident then (some even called us smug); Canada was growing; jobs were plentiful; our material standard of living was consistently rising. We were the preferred corner of the world, and the future was ours. Bigger was better; complex was in; consumption was the order of the day; manufacturing was to be the key. We had space; we had materials; we had technology; we had youth. Positive changes came faster and faster in education and medicine. *We* took the high road as peacekeepers while *others* provoked wars. Does all this sound familiar?

In those days, as Canadians, we might have acknowledged that once we were conceited. But having overcome that flaw, we were now perfect.

Our view of Canada today is at odds with that of 1965. We are constantly being reminded of the ecological damage we are inflicting on our country. Our education system seems to turn out students who do not find work. Our politicians are under pressure and underperforming. Our health system cannot keep up with the demands. Our incomes are not keeping pace with inflation. Marriage statistics tell a sorry tale. There is a feeling of concern and despair that things will likely get worse.

Comparisons between these two eras make twenty years ago seem as quaint to us now as the Victorian Era appeared to us in the Sixties.

Instead of causing us to take positive and direct action, the current confused environment allows actions to be taken that common sense normally would not allow. We pay people half a wage not to work; support losing industries rather than winners; promote weaker areas of the country over stronger sectors. Somehow, soon, this has all got to stop. We have to face reality.

Is the situation so bad that we must go to such lengths to avoid it, or are we simply over-reacting? If we start with the basics, we seem to be blest with the key advantages the rest of the world wants:

- a democratic government
- basic freedoms
- competitive educational, judicial and medical systems
- a safety net of social benefits
- a sound physical infrastructure
- abundance of natural resources
- a peaceful history
- a favoured geographic position next to the world's most attractive market.

At this point, a little cold weather aside, most people in the world would opt for the chance to join our ranks, no questions asked. Our problem is that most of us take all of these advantages for granted. If you doubt this point, just talk to any New Canadian. One has to do without before he can realistically set priorities. I believe, however, that, under pressure, most of us would admit that Canada is a preferred place to live, and a country that has more than its fair share of pluses.

Presuming that we can market this realistic view of Canada and are prepared to concede that perhaps we are not that badly done by, what are some simple steps to take in achieving our goals and potential and, thus, "meeting the Canadian challenge.''

The first step has already been taken, if we can introduce a note of optimism in our potential. Optimism leads to trust, trust leads to collective risk-taking, and collective risk-taking leads to success. Without the ability to accept risk and challenge, each of us retreats to the safe haven of the *status quo* and the protection of his existing niche.

Secondly, we must stop the verbal gamesmanship going on around us, with individual groups jockeying for privilege at the expense of others. We must seek to provide clarity, rather than confusion.

Free trade is bad/good? Reducing deficits is bad/good? Are we bankrupt? Or, can we afford indexing? (This type of double-talk reached a new high when *The Wall Street Journal* announced: ''The New York Stock Exchange successfully withstood two bouts of good news today!'').

Can we expect to achieve a consensus when we are inundated with conflicting advice?

Thirdly, as the book In Search of Excellence advises: ''Keep it simple.'' Too often, we try to be too sophisticated, too complex. For example, there is no reason why we should not apply to our problems the same type of rules and thinking we would follow as members of a successful family. Strangely enough, they do not appear out of place if you apply them to a city, a province, or a country. For example:

- you cannot continually spend more than you earn;
- you have to clearly communicate and obtain a consensus on collective goals;
- a shared decision is reached after much give and take, and benefits from each family member's feeling of participation and contribution to the decision;
- rules must be collectively developed, respected and altered as required;
- each participant should share equally in good times and bad.

None of these statements is original, shocking or difficult to understand; just straight common sense. But, somehow, when it suits us, we let complexity and size "confuse" us to the point of thinking that "Perhaps I should get more," "My case is different," "I know of others who get more," etc.

Fourth, don't try to fight change, as we will be battling forever. Change is always with us—sometimes for good, sometimes for bad.

To truly maximize the benefit from the good times, we must take advantage during the bad to redesign or adjust the structure. In fact, positive adjustments primarily happen in bad times. For example: would we have become as energy-conscious or efficient without the Organization of Petroleum Exporting Countries (OPEC) crisis? The U.S. was able to create 24 million new jobs in the supposed no-growth decade of 1974-84, from a wide range of new and small businesses started by people who could not find work with the large corporations. If times had not been tough, would businesses have been as anxious to open their books and explain the reality of their earnings, competition and markets to the employees? Would labour leaders be recommending ways to improve returns and accept more flexible work rules? Would politicians be saying that the private sector must be the engine that drives the economy, and that government should reduce its involvement and interference?

This change we complain about should not be resisted but viewed as an indication of successful and orderly transition. Governments, rather than protecting areas and industries that are non-competitive, should direct their attention elsewhere. *The Atlantic Monthly* had an interesting observation on this question when it stated:

"The post-war growth of California had done more for the people of Appalachia and the Midwest than any targeted-assisted program. The Government could best discharge its obligations by removing barriers to mobility, that prevent people from migrating to locations of economic opportunity."

Truthfully, North America only became great because people, unhappy with their lot in life, moved to this continent, in most cases with great effort and much risk-taking.

In addition to general rules, there are many specific actions required to be taken by us, individually and sectorially. As I subscribe to the belief that "to be acceptable, painful choices must be self-inflicted," I will talk as a citizen and business person, on two areas of current concern, and how I would be prepared to be treated in the course of their solution.

Let me start with the old standby question of the budget deficit. In 1984-85, our Federal Government ran a deficit in excess of 35 billion dollars. (In 1965 we had a surplus of 231 million). Today, we are providing less than 65 cents of each dollar we spend.

As a citizen, I believe that governments are away behind the general public on the question of a balanced budget. If we go back to the family-rules concept, no family that I know expects that you can continue to spend more than you earn. Why do we think it will work, just because you change it to billions? The *Globe and Mail* in its Morning Smile, a week ago, had an appropriate comment: "Isn't it a shame that future generations cannot be here to see all the wonderful things we're doing with their money?" The Government knows, without question, that we have to achieve a balanced budget over a reasonable time period.

However, there are conflicting realities at work here. If a government makes the right budget for the economy, it's political suicide. If it makes the right budget for politics, it's economic suicide. The answer obviously is that we must educate the public to the reality of our situation and see that, as a minimum, more than 51 per cent pass this course in basic economics. We can only move the budget from a political context to an economic reality, to the extent that we are prepared to educate and involve the voting public.

A minor attempt was made in the last budget to introduce reduced indexing of pensions. A move in the right direction, but not well handled. Personally, I am convinced that we cannot afford indexing. As in the family rules, all members of the family should share equally in the ups and downs. No group should be sheltered from reality, whether it is the working sector demanding inflation plus compensation, or the retired sector demanding inflation-proof pensions, *unless* all can benefit equally. Again, speaking personally, when the time comes from me to go on pension, I do not believe that the monetary priorities of the Government of Canada will enable it to rate me high enough to pay me *any* pension monies. And it will do so in a "no stigma" individual manner, through the judicious use of computers and my tax return. Even if I suspect that this will be the case, it would be far better for me and others, if the Government clearly outlined this reality now, rather, than springing it forth from a secret budget when I am 68. I can appreciate the concerns our pensioners feel, but I also know that we can only spend what we earn. (In fact, even that must now be significally discounted, to pay back the debt already borrowed from the future).

Another topical question is that of international trade in general, and our trade with the U.S. in particular. From my business viewpoint, this is a subject of interest and relevance. Back in the 1970s, at Canada Cement Lafarge, we had a basic decision to make. Do we grow by going into a new type of business, or do we expand internationally? We made the decision to expand internationally in 1981 by acquiring General Portland Inc., the second-largest U.S. cement producer. (Incidentally, most other Canadian cement companies have followed similar paths). In doing so, we became the largest North American cement producer, and were positive that we could be competitive and prosper. There quickly followed three major adjustments to our plan:

First: the North American cement market contracted to a 20-year low in demand; secondly: interest levels rose to unprecedented heights (with our having heavier debt levels than usual as a result of the acquisition); thirdly: cement rapidly switched from being a domestically supplied product to that of an international commodity.

It has been a tough four years but, fortunately, our results have improved each year. Our plants are competitive with an open border between Canada and the U.S., and we have the flexibility, strength and size to meet international competition and succeed. Had we not been toughened in this real-market environment, today, instead of actively seeking international markets, we might be hiding behind our borders and calling for help. It is our feeling that we can aspire to being the best in the world only by competing for this position and winning—not by isolating ourselves in a spread-out 25-million-inhabitant market and asking for privileged treatment. We feel the Canadian cement industry has taken an aggressive stand and proven it to be the correct one.

On the general question of trade with the U.S., again, reality must be the order of the day. Already the battlelines have been drawn and opinions range from free trade being the salvation of Canada, to free trade being the elimination of whole sections of the economy. There is a wonderful quote taken from The Myth of Free Trade which goes:

"As in the caucus race in Alice in Wonderland, nobody particularly minded that all the participants were playing the game according to different rules—as long as there were prizes for everyone!"

We must face the facts: there will not be prizes for everyone in this race, even though we are all playing by different rules!

One must assume that any deal concluded between us and the U.S. will be framed in the context of the U.S.'s best interests, as well as our own. Our importance will rise and fall with the fortunes of the next General Agreement on Tariffs and Trade (GATT) discussions, as the U.S. is looking to achieve a positive trade environment via the two routes. Progress with GATT will reduce the emphasis on the Canadian deal and vice versa. Therefore, the arrangement we favour must be saleable, attractive and essential to the U.S. interests. Despite public knowledge of our need to have the U.S. markets open to us, we can also provide essential benefits to them. These would include: access to our materials and markets; our participation in improving their security; and our ability to provide them with a practical example of their desire and willingness to have their markets open to fair trade. To exchange access to our market for the opportunity to enter one ten times its size, seems to provide very good odds. Too many of us only want to enter the game if we are guaranteed against all downside risk.

Should we have any illusions about the reality of our U.S. trade, we can learn from a recent disclosure from the Ontario Legislature's Select Committee on Economic Affairs. It confirms that the U.S. is one of the few markets in which we can be competitive. That Ontario is already tied to the U.S. markets and higher trade is essential to its future financial health. Ontario has no option but to be actively involved in maximising Canada-U.S. trade. Failure to do so would see a drop from existing levels of Ontario-U.S. trade rather than the potential of guaranteed access and the possibility of higher levels of trade. (And keep in mind that all this international trade talk remains basically theory, unless we can first determine a way to eliminate interprovincial trade barriers and protectionism).

We sometimes tend to think the trade question is only a problem for us. Perhaps you would be interested in hearing some comments from the Report of the President's Commission on Industrial Competitiveness. The ideas expressed could, and, in fact, do apply to Canada equally as well:

What is the private-sector role? Government cannot legislate success. America's ability to compete lies primarily within the private sector. Thus, business should establish world leadership in the commercialisation of product and process technology, raise investment levels in productive assets and the development of employees, seek new ways to create a consensus on goals within our business organizations, and broaden its perspective to include the possibilities of world markets and the certainty of global competition.

What is Government's role? Government should take the lead in highlighting the importance of competitiveness and should nurture an effective consensus-building dialogue among leaders in industry, labour, Government, and academia. Government should provide a stable fiscal and monetary policy that ensures steady, non-inflationary growth, an environment that nurtures and protects technological innovation, an educational system that prepares our people for the future, a free and fair world trading environment, changes in anti-trust and export administration policies to reflect the new global environment, and policies to help American firms and workers respond to changing technologies and markets.

What must we all do? We must recognize the challenge and its significance. We must equip ourselves with the skills required in the work-place of the future, adopt a flexible attitude toward changing markets and technology, and work together to strengthen the competitive performance of American industry.

This is the U.S. viewpoint, despite its size and strength. Failure of Canada to follow a similar path will leave us as an isolated, industrial market of 25 million people competing against tougher competitors who are operating from a market base of 200 million people, or more.

We could continue to examine a series of basic issues, one by one. However, I believe they would only add to our conviction that clinging to the *status quo* is out, and the ability to seek out change, and base our decisions on reality, is in.

In summary, we can conclude that there are real problems to face. However, we as Canadians do so from a very favourable base, and not from the disadvantaged position that we sometimes like to assume we must bear.

We must brush aside current confusion and indecision, and let our talents and advantages be effectively put to work to prepare our future. It will require commitment and sacrifice but the objectives and potential results will justify such an effort. These choices and decisions are being faced by every country today. All of us must actively resist the short-term paths that lure us from reality, sometimes promoted with short-term tranquilizers. This is a decision that can't be put off. We must get out of our chairs, roll up our sleeves, and get to work. There will never be a better or easier time to successfully "meet the Canadian challenge."

The appreciation of the audience was expressed by Col. Robert H. Hilborn, a distinguished Past President of The Empire Club of Canada.

Adrienne Clarkson

Ontario's Agent-General in Paris

ONTARIO AND THE FRENCH CONNECTION

November 21, 1985

The President
Harry T. Seymour, Chairman

Mr. Seymour

Before proceeding with the formal part of the meeting, I have the distinct pleasure of making a presentation to our Immediate Past President, Catherine Charlton.

Catherine, the 82nd and first woman President of The Empire Club of Canada, had an outstanding year. In addition to the 25 regular luncheon meetings, she organized directly or indirectly six special events: General Earl Haig in June, the Hon. Brian Mulroney and the Rt. Hon. John Turner in August, and His Eminence Agostino Cardinal Casaroli in September, 1984.

Although the pace slackened for special events in the second half of the 1984-85 season, we were pleased to have Lord Carrington in February and Peter Ueberroth in April.

Ladies and gentlemen, on behalf of The Empire Club of Canada, I am pleased to present Ms. Catherine Charlton, Immediate Past President of The Club, with this scroll signed by our Honorary President, Her Excellency the Rt. Hon. Jeanne Sauvé, in recognition of her outstanding contribution to The Club for the year 1984-85.

Ms. Charlton

Mr. Chairman, distinguished Past Presidents, members and friends of The Empire Club of Canada: It is a great honour to receive this scroll, and I am sure you will understand my particular pride as the first woman President of this Club in receiving the first scroll to be signed by Canada's first woman Governor General. This is a memento that I value highly, and, I might add, that is enhanced by Her Excellency's having been so recently at The Club.

The record of the 1984-85 Empire Club year will be in your hands momentarily via The Yearbook, and so I will leave it to you to peruse at your leisure. However, I will point out that the format has been revised, so I do hope you will approve and enjoy it.

The Empire Club Yearbooks date continuously from 1903 to provide a living record of The Club and its speakers. It is this intermingling of personal and public history that is a particular joy to me. For example, the 1984-85 book opens with the provincial dinner for Her Majesty Queen Elizabeth II. The fact that both her Ontario and Toronto tours were organized by Past Presidents of this Club is of added interest to our membership. These Past Presidents are: Col. Robert Hilborn and MGen. Reginald Lewis.

Past Presidents of this Club in themselves represent an important tradition of continuing service. I single out MGen. Bruce J. Legge, Q.C., who has served the interests of the Club unstintingly since his own year, 1958-59. During the past eight years as President of the Foundation, he has been responsible for publishing as many Yearbooks, and has been most encouraging in my efforts to introduce a new look to the text. In fact, Gen. Legge has a history of introducing the "new look." He it was who nominated me in 1975 to become the first woman Director of this Club.

To share the responsibility for said iconoclasm, I point out that Sir Arthur Chetwynd first raised the question of my joining the Board when he was the President in 1974-75, and it was BGen. Stephen Andrunyk, our 1981-82 President, who nominated me to the Presidency of The Club.

Surely, you will say, it is a great honour to be counted among such discriminating Canadians.

On a final note, I am pleased to say that it is our most distinguished Past President, the Rt. Hon. Roland Michener, who was the most photographed guest in 1984-85. I must say that the opportunity to serve The Club is second only to the great honour of being numbered among its distinguished Past Presidents, particularly including Canada's well-loved former Governor General.

To my colleagues and fellow members, thank you for the opportunity of being your President in 1984-85. I hope that the program was to your liking.

Mr. Seymour

Distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today Adrienne Clarkson, Ontario's Agent-General in Paris.

To quote from the October, 1985, issue of *City and Country Home*:

> "Until Adrienne Clarkson became Agent-General for Ontario in Paris in 1982, France's knowledge of Canada ended more or less at the Quebec border. With grace, wit, and a talent for hard work, Clarkson is changing all that."

Until her appointment in May 1982 as Agent-General, Clarkson was one of the best-known television journalists in Canada. For eighteen consecutive years, she was the star of CBC public affairs programmes: "Take Thirty," "Adrienne at Large," and "The Fifth Estate."

Her hour-long documentaries on cancer received the Award of the American Academy of Television Arts and Sciences (the "Emmies") in 1978 and 1980.

Since 1961, she has written extensively for the major newspapers and magazines in Canada and is the author of two novels and one collection of interviews.

Born in Hong Kong, Adrienne came to Canada with her family in 1942. She attended public schools in Ottawa and later received her Bachelor of Arts degree with honours and her Master of Arts degree from Trinity College, University of Toronto, in English literature.

From 1961 to 1964, she lived in Paris, attending the Sorbonne's diploma course for the training of teachers of French in foreign countries.

As Agent-General, Adrienne Clarkson is responsible for promoting Ontario through business, tourism and cultural matters, not only in France but also in Italy, in Spain, and in Portugal.

Three of Ontario's major successes since her tenure began have been: the winning of the international competition for the new Paris Opera House by Toronto's Carlos Ott, whom we are pleased to have with us today; the implantation of the new Renault-AMC automobile plant in Brampton and the creation of 7,000 new jobs in Ontario; and the automation of The National Library of France through a GEAC-sponsored joint venture with a French firm.

Adrienne Clarkson creates successes! In the three successes outlined, Adrienne played a major role, be it suggesting or guiding a proposal through to its successful conclusion.

What is her latest accomplishment? Her toast to "Ontario" was the winner in a recent contest co-sponsored by the Association of French Barmen and the Ontario Department of Tourism. Dubbed "The Ontarian," it includes three ounces of Canadian Club whisky, two ounces of Cointreau, two ounces of grapefruit juice, one ounce of grenadine and two ounces of tonic water. The directions: mix the ingredients, pour over ice, garnish with a slice of lime, a cherry and a fresh mint leaf. Santé!

Ladies and gentlemen, it gives me great pleasure to introduce Adrienne Clarkson, Ontario's Agent-General in Paris, who will address us on the topic, "Ontario and the French Connection."

Adrienne Clarkson

Addressing The Empire Club seems for me to be uniquely appropriate, as I am, all outward and physical evidences to the contrary, a product of the British Empire. I was born in Hong Kong (then, and still for a while to come, a British Crown colony) as was my mother. My father was born in Australia and we all immigrated to the Dominion (now an unfashionable word) of Canada where I annually played the role of (South African Prime Minister) Jan Smuts in our Empire Day pageants at Kent Street School in Ottawa. The only other "product" like myself that I ever met was an Indian friend at the Sorbonne in the early Sixties, who was from the island of Mauritius (a bilingual country, Canada in miniature) who had fetched up in South Africa, studied at Oxford, and was planning to live in Trinidad. Those of us who grew up where the sun never sets really knew how to get around! And perhaps it's why I like to stay out in the clear, away from the shadow.

Perhaps then, that's why I've taken the approach I have to my work as Agent-General for Ontario in France. I thought this job would give us, as people, a chance to promote ourselves and win a share of some action in France that we'd been missing out on for some time for mysterious reasons that could be described as shyness, an inability to make tough deals, and, just generally, thumbsucking. Having known the French at close quarters for twenty-five years now, I can say that they certainly provide a formidable contrast to what we know of our own national character.

We say, "If it's made in the States, it must be good." They say, "If it's not made in France, how can it be any good?" We say, "She's really quite a nice person;" they say *"Elle n'est pas méchante."* ("She's not bad.") Most importantly, we say, "I wonder what they want from us," and they say, "What we want is a 51-per-cent participation." Where we are silent, they are articulate; where we back into the net, they prepare to shoot and score; where we wait and see, they have a game plan.

But it's worth it to do business with them for a number of reasons. First is our history. A country that ignores its own history stumbles through the present and has to have a Braille map for the future. The French connection goes back to Champlain discovering Georgian Bay and Etienne Brulé the mouth of the Humber. It leaves its legacy in the half-million franco-ontariens.

But the main reason for Ontario House in Paris is that there is something there for us. In frank terms, we can make money with the French and we'd better work hard at it, or other people will. Forget your stereotypes of the French as a happy people fond of light wines and dancing. The French are a tough, hardheaded lot, who haven't changed since Caesar characterised them in his *Gallic Wars* as "short, stubborn with round heads." I might add that those round heads are filled with big grey brains, which they are taught to use at an early age in one of the finest and most democratic education systems in the world; and that they possess a collective will that is the positive aspect of their homogeneous society. It's that collective will that has enabled the French to pull off an industrial and economic miracle in the past twenty-five years that is breathtaking.

When I went to Paris as a student in the early Sixties, France was reeling from the effects of the Algerian war and all the internal wounds and strife that a civil war with colonial loss can bring. I read an article about a survey taken then that stated that one out of ten French people had hot running water in their homes. Today, they have not only hot running water, but second houses, one or two cars and all the benefits a booming consumer society can provide.

They did this through the force of an industrial and economic policy based on an independent nuclear force. To this day, there is no disagreement across the political spectrum. All Frenchmen want France to remain independent and, if having their own bomb is the way to do this, so be it. This is the meaning behind the Greenpeace affair. France, alone among the European countries has no, absolutely none, anti-nuclear movement. While women invest Greenham Common in England by the thousands and a million West Germans march against nuclear proliferation, a Socialist President in France reiterates his country's plans to continue above-ground testing in the South Pacific and not a single French person disagrees. If that is what it takes to keep France French, that's it.

Interestingly, the main public opinion about the Greenpeace affair was not based on the moral question of whether it was right or appropriate to do what they did, but how badly they bungled it. For a country that prizes intelligence and rationality above all, this is the ultimate opprobrium and contempt.

The French are quite rightly proud of their technological progress in the past twenty-five years, and that is where we come in. France has adopted with singlemindedness and passion the whole area of high technology, especially all aspects of data processing and transmission. And that is an area in which we in Ontario excel. About two years ago, a company from Markham, GEAC of Markham Ontario, called us in Paris and said that, since they had the finest system for computerizing libraries in the world, they would like to computerize the Bibliothèque Nationale in France, *the* national library.

Now, although I like to be upbeat and optimistic at all times when initiative comes from our businessmen, I gulped and said that I didn't think we could expect a licensing agreement or a straight sale. With something as prestigious and touching on natural pride, not to say chauvinism, the French want to buy French first. However, there was a hope and this is the hope that lies open in all our industrial sectors with the French—we're at the same level of development as they are, so we're natural rivals in a sense—a joint venture. To make a long story short, we helped to put GEAC together with a subsidiary of a huge French industrial conglomerate and there is now GEAC France. Shortly thereafter, they got the Bibliothèque Nationale, and the new Science Centre in

Paris called La Villette (where incidentally, the IMAX cinema system, which was invented here and which we see at Ontario Place, has been installed to great French critical delight). And most remarkable of all—Ontario House in Paris covers Italy as well, you know—they got the contract at the Vatican. Heaven is the next stop. And it's also the answer to the question, "Is there life after Markham?"

GEAC is only one excellent example of a number of companies that are breaking into France with an excellent product and doing not just a straight take-the-money-and-run sale but building a long-term industrial partnership that will bring economic benefits back to us in the long term. Particularly in the area of high technology, we must think of solid long-term partners like the French because, although they're tough and skeptical and self-interested, they are historically and economically part of us.

Attracting French investment, by joint ventures with GEAC or directly as in the Renault-AMC plant at Brampton in the critically important auto sector is going to help us to diversify our economic relations with people who represent a high level of resourcefulness and development, so that the risk of failure as the project progresses is minimised.

As you all know by now, I should hope, a Toronto architect, Carlos Ott, won the international competition of more than 800 entries to become the architect of the new Paris Opera House. Many people who know the French patriotism—and patriotism by any other name is chauvinism—were surprised to hear that he had won, or rather, that the French had had an international competition. Well, the truth is that French architecture and European architecture for the most part are in the doldrums and they simply have to look outside if they want the best; and do we have the best!

In another international competition, to build the showcase centre for the French communications industry, there were three Toronto firms in the final list of ten. Carlos' brilliant plan for the Paris Opera, a major capital project, is doing a fantastic PR job for the architectural and engineering services of Ontario. This project with three auditoria, which will revitalise the area around the Bastille the way the Centre Pompidou energised the area around *it*, is an example of the new modernism we know in a building such as the Eaton Centre. It will be a constant visual reminder that what we have to offer from Ontario is excellent, modern, sophisticated and world-class.

And that leads us to the question of the kind of image we want for Ontario. And when I say image, I mean a positive vision, not a slick packaging of surfaces, reflecting light. I mean image as a natural resemblance of what we are, a visible representation of us today in 1985. I didn't have to take a survey three years ago when I arrived in Paris to take up my post to know that Ontario had no image at all; I knew that 50 per cent of the French would think we were an American state and that the other 50 per cent might think we were that dull English part of Canada where everyone eats badly and thinks that excitement is going down to Eaton's on Thursday night to try on gloves.

We have had to change that—directly, by bringing the press, radio and television from France to Ontario. We instituted an aggressive programme of attracting them by thinking up ideas for them to write about. The *Figaro* magazine wrote about Northern Ontario and wild-rice production and tied it into our two-week gastronomic festival at a Paris hotel; *Elle* magazine followed Jeanne Moreau to Toronto for the women's film festival and did their story on her in the context of that Harbourfront event; the most trendy newspaper, *Liberation*, came to cover the Bach competition and the Toronto film festival; *Abitare* magazine came and did 58 colour pages on the architecture of Ontario from Thunder Bay to Stoney Lake; *France-Soir* magazine, *L'Événement du Jeudi*—you name it, we've got them, or we're getting to them.

We've just done a cost benefit analysis of this coverage and, from 1983 to mid-1985, we spent $30,000 on this programme. Total cost. If we had had to pay for the equivalent pages of publicity, those pages would have cost us $938,000.

The three full hours of TV coverage would be a minimum of $300,000 in just above-the-line cost.

We are totally shameless. We ran a contest in the biggest agricultural magazine in France, *Rustica*, and gave a first prize of a trip to Ontario and a second prize of a bunch of trilliums to plant in your backyard. We also explained how unique and perfect the trillium was and, of course, that it was *our* flower.

We organised a contest with the union of French barmen (a very serious organisation) to concoct a drink to be christened "the Ontario." French celebrities from all domains wandered in and out of a large hall featuring a stuffed moose, tasting sixty different concoctions containing everything from maple syrup to cranberry juice and voting on them. First prize was christened "the Ontario", second prize "the Toronto" (that's an "in" joke).

We've formed a club of all the journalists who've been lucky enough to come to Ontario; it's called *la plume et le trillium* and they come and eat wild rice and pumpkin pie (among other things) at my house once a year. And I'll tell you that all those journalists are dying to come back. They call Ontario "the best-kept secret" and ask why we keep our light under a bushel.

There's no reason to do so. And there's every reason to make much of what we have that's good and try to attract our proper and even improper share of the market. Those who think that we can attract European investment by showing them the trucking routes we have from Toronto to Detroit are very shortsighted.

The nature of European investment is textured and faceted. If they're going to build a plastics factory here or make an auto part, they want to know if French people can actually live here. What will be the quality of life? Telling them that our quality of life is our proximity to the United States is short-changing ourselves and our potential partners. The reason it is important to build our profile is that it will make us a consciousness factor in the eye of the potential investor. If an image springs to mind when our name is mentioned, we will always be considered. If we are invisible, we will always be starting from zero, every single time. We are competing for that investment with New York State, with California; we have to show what we are.

Everything that Ontario House in Paris has been doing for the past three years is part of an attempt to show the kaleidoscope. We can't possibly do everything, with a staff of sixteen people, eight of whom are support staff, so we've targetted everything that is excellent. We project ourselves as a high-tech, dynamic place with cities and wilderness, civilisation and solitude. We call ourselves "le nouveau nouveau monde" ("the new New World") and, in the past year, we've seen a six-per-cent rise in tourism to Ontario while Canada as a whole unfortunately has dropped by five per cent.

I consider that Ontario can attract people as investors and as visitors. All Europeans, and the French in particular, consider cultural life to be a vital sign, a sign of civilisation. Our stock goes up as partners because we are not a Zaire or a bunch of natural resources pretending to be a political entity. And our cultural expression gives us an important part of that identity.

Our cultural industries employ a large number of people, and the ability to provide markets for them is as important as selling a good industrial tire or bomb-disposal equipment. But when you are faced with a very limited budget, you can't do everything, so we targetted. And the reason to target is to make sure that our artists have the best reception possible.

I believe that, if we are using public money, we should use it in a way that will insure the best value. I don't want our artists to come and play to houses that have been stacked with our friends and acquaintances. All artists want to know that they are meeting a real audience and being judged on their merits. And I don't want our artists to play in second-rate gymnasia in mournful suburbs. They are talented enough to play in the best places and should. And it's my job to ensure that they will.

In the case of our dance companies who were presented for two and a half weeks at the Centre Pompidou in an event called *Aujourd'hui Ontario Danse*, it was the result of nearly two years of careful cultivation—getting to know the head of theatrical production and head of dance programming at the Centre, interesting them and piquing their curiosity about modern dance here, then inviting them to Toronto and Ottawa to look at more than a dozen companies. They were so impressed by what they saw (which we knew they would be, as we monitor the competition in Paris very carefully) that they agreed to invite four of the companies to the Centre—and, lo and behold, we had a full-blown success with critical approval, pictures of the dancers in major magazines such as *Elle* and packed enthusiastic audiences every night. We even had a draw on the tickets and the winners won a first-class trip to Toronto with three cultural events as highlights.

You know, in dance we may not be better than anyone else in the world, but we are certainly as good. And by the way, being invited by the Centre Pompidou meant that we got free poster space in all the subway system of Paris and our terrific poster designed by Reactor in Toronto, with "Ontario" in very large letters, was seen by two million subway riders every day for three weeks.

By now, I think the message is starting to get across. We're terrific, and we're terrific to do business with. And every $50,000 worth of investment is a job for Ontario. Crawley Films in a joint venture is providing the most exciting opportunity as the means by which the French are starting their own animated film industry and it's our technology that's doing it.

And we can go on to expand if we have a real image of ourselves—something unique. We're Canadians and, as Canadians, we're a multicultural bilingual society without class barriers and civil war. We're creating something so new here that those of you who live here all the time don't realise just how special it is. It's all just starting to jell now—Chinese food and reggae music, pizza and zithers. The energy that gives us now must be turned outwards so that we'll really be ourselves.

That's why our relationships with strong partners like France are vital. They can teach us to get what we want.

You know, I always laugh when people ask me how I like being a diplomat. I don't think of myself as one in the conventional sense of the discreet emissary who can smile while heavy loads of manure are pitched. My ideas about "diplomatic activity" are different from those of people who think that action is a memo to all staff.

I believe in direct intervention and personal responsibility. In fact, to me, diplomacy is getting what you want without actually going to war. And since that isn't likely to happen with France, we have a large margin of manoeuvrability.

The appreciation of the audience was expressed by Maj. Charles C. (Bud) Hoffman, Royal Winnipeg Rifles, otherwise known as the Little Black Devils; one of the first Canadian officers to enter Paris before the city was liberated in August, 1944; an officer of the French Academy; and a director of The Empire Club of Canada.

Dr. Douglas T. Wright
President, University of Waterloo

TECHNOLOGY AND THE COMPETITIVE CHALLENGE

November 28, 1985

The President
Harry T. Seymour, Chairman

Mr. Seymour

Distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today Dr. Douglas Wright, President and Vice-Chancellor of the University of Waterloo.

The university was established in 1957. Its founders faced the future with a total commitment to fostering university/ industry co-operation, as well as organizing the first co-operative educational programme in Canada.

Such a demonstration of courage was even more memorable when you consider that we were on the threshold of the turbulent Sixties, when the concepts of business and profits were considered sinful and any university/industry co-operation unacceptable.

The word "courage" comes from the same stem as the French word *coeur* meaning "heart." Rollo May, in his book *The Courage to Create*, writes:

"Without courage, other values wither away into mere facsimiles of virtue. . .In human beings, courage is necessary to make being and becoming possible."

In the case of the University of Waterloo, it meant implementing new, creative directions in the university community.

What has the courage of the founders and their successors produced in 28 years? A world-class university!

It has produced a university with more than 50,000 graduates; a current enrollment exceeding 25,000 students; Canada's first year-round university featuring 99 programmes in six faculties; the world's second-largest co-operative enrollment of 8,655 students; and computer-software licensing fees totalling $3 million in 1984. This exceeds the combined fees of the Massachusetts Institute of Technology and Stanford University. Its 800 faculty and almost 2,000 graduate students lead the nation in industry-sponsored research.

Moreover, the University of Waterloo has the largest engineering enrollment in Canada and the largest mathematics enrollment in the world.

Our guest today has the awesome responsibility of following his very successful predecessors, Drs. Gerry Hagey and Burt Matthews. But Doug Wright's scholastic qualifications, government, business and academic experiences, have prepared him well for his major position of responsibility.

Born in Toronto some 58 years ago, Doug Wright earned a Bachelor of Applied Science degree from the University of Toronto in 1949, a Master of Science degree from the University of Illinois in 1952 and, in 1954, while on an Athlone Fellowship in England, he received a Ph.D. from Cambridge University in structural engineering.

In 1958, he was persuaded to leave Queen's University, where he had been teaching civil engineering, to become the first professor and chairman of the Department of Civil Engineering at Waterloo. A few months later, he became the first Dean of Engineering at the university and, as such, was the major architect in the rapid growth of the faculty over the next nine years.

Motivated by a strong desire to broaden his knowledge, not that that was necessary, Doug Wright left the campus in 1967 to assume the position of Chairman of the Ontario Commission on Post-Secondary Education in 1969; a Deputy Minister at Queen's Park in 1972 in the social-development policy field and later in the Ministry of Culture and Recreation.

In 1981, he returned to Waterloo to become its third President. Although his accomplishments as President have been many, one of the most richly rewarding successes to date for Doug Wright has been the development of the corporate commitment to the university's Institute for Computer Research. We welcome those member firms able to join us at the head table today.

Dr. Wright is married and has five children. In addition to his academic responsibilities, he is a director of several corporations well as the Kitchener-Waterloo Symphony Orchestra and the Stratford Shakespearian Festival.

Ladies and gentlemen, it gives me great pleasure to introduce Dr. Douglas Wright, President and Vice-Chancellor of the University of Waterloo, who will address us on the topic "Technology and the Competitive Challenge."

Douglas Wright

These are extremely critical times for Canada. We are being challenged to develop new ways of doing things, to develop and adopt new technologies, to be far more innovative than we have ever been before.

In fact, we are being challenged to develop a whole new economic framework to meet the threat of much more intensive competition than we've ever seen before, competition coming not just from the United States or Western Europe, but from every corner of the globe. (Little wonder that we in Ontario have concerns about the free trade question!) We don't know what the impact of the new world economy may be, but we can be sure it will affect all phases of endeavour whether we look at our resource industries, manufacturing, or even the service sector.

As Walter Light of Northern Telecom noted recently, Canada's industrial position is "much less assured" than it has been for years. Alluding as well to our need for vastly improved productivity, he added:

"While we debate, contemplate, procrastinate and deteriorate, other nations are moving into, and securing, international markets we need as a nation if we are to survive, let alone thrive."

The crossroads at which we find ourselves may even determine our very survival as an independent nation. We either find ways of keeping up to date technologically or we fade away as a viable industrial country.

Whatever happens, the evidence is clear that thus far we have failed to be sufficiently innovative. We have allowed some of our best minds to go unchallenged and unrewarded; our industrial sector is not sufficiently competitive; our balance of trade in manufactured products has been negative throughout most of the 1973-83 period and, as Ministry of State for Science and Technology publications have shown, the "largest components of this deficit are trade in high and medium technology." A recent *Toronto Star* article put the deficit at $12 billion a year, in the high-technology area alone.

What do we mean by "technology"? It's know-how and know-why. That's all.

What is fascinating is that some of the countries doing best in know-how and know-why are also resource-poor. Technology-rich Switzerland, Japan and Germany come to mind, and Korea may not be far behind.

Yet Canada, abundantly rich in resources, is technology-poor. We act like a giant Kuwait! We have come to believe that we can dig it up, cut it down, or pump it out, endlessly. We have depended for years, for our economic well-being, on our abundant natural resources and whatever second-hand technology our branch plants and a protected domestic economy have brought with them. We've been the victims of good fortune and complacency.

During my undergraduate days at the University of Toronto, just after World War II, there was lingering fear and apprehension that the "dirty thirties" with all their hardships might return. What followed instead, was a 35-year period of almost uninterrupted growth. There were a couple of minor downturns, but, in general, we've had it very good. This has led us to become a nation preoccupied with social benefits and equity, the division of wealth, rather than with its creation.

By way of contrast, it seems clear that the key to success is coming to rest *entirely* on our ability to be innovative.

Too many Canadians (and, let us keep in mind, governments depend on majorities to get elected) still believe we can have it both ways. That is, we will simply continue to enjoy the riches we've had these past 35 years and also, somehow, be spared from having to compete.

The naïveté we have developed over the last 35 years has given too many Canadians blinkers so we don't seem able to see the problems that confront us. We have been so smug so long, countries we termed "Third World" have leaped years ahead.

Malcolm Gissing, president of Hewlett-Packard (Canada) Ltd., said recently:

"The way Canada is going to shine in the future is through the application of high technology."

That does *not* mean that we are going to be just hewers of silicon and drawers of software; the issue is to use the new technologies to make the processes and products of existing industry more competitive!

What is the best way to go about developing and employing the new technologies and products we will surely need if we are to compete?

Our prime need is to develop and use our human resources. That means education and training, and research and development.

I believe that our universities can make a vital, essential contribution by providing an environment in which our young people develop in a way that enables them to reach their full potential. I am reminded of the words of the psychologist, Jean Piaget:

"The principal goal of education is to create people who are capable of doing new things, not simply recreating what other generations have done—people who are creative, inventive and discoverers."

Such an environment must include the traditional freedom to explore all kinds of ideas and investigate all sorts of phenomena, of course. But it requires, as well, that the universities keep in touch with the larger society. And this is best done through a variety of relationships. Universities are not ivory towers today, if they ever were!

Our experience at Waterloo is that such relationships benefit both parties. And they do not impinge upon academic freedom. Indeed, we find the business community as sensitive as we are with respect to academic freedom, because they recognize that it functions in their long-range best interests. At least, that is certainly the way I read the comments of the many business leaders with whom we work.

One of the most encouraging things I've observed recently has been the report from the Corporate Higher Education Forum, "Spending Smarter," by a committee chaired by Raymond Cyr, who is also chairman of Bell Canada.

This report discusses co-operation in research among business, government and the universities. It identifies the problems as well as some *apparent* problems and shows how these could be swept away so better working relationships would evolve. I think it could prove a very seminal document.

Now I have a very real concern, as I speak to you today, to tell you that the capacity of our universities, especially in Ontario, to contribute to the development of our young people has been impaired. The undeniable cause of this is our financial difficulties. But they are only the superficial cause. The root cause is, I believe, public indifference.

This is understandable. As long as people felt that our economic problems were not critical and that our resource riches assured our long-range well-being, they simply didn't have to take our universities and their problems seriously. The idea was, simply, to provide for the greatest number of students at the least possible cost. Thus our universities have come, in a way, to be instruments of social-welfare policy, rather than what they should be: investments for our future economic well-being.

We ought, instead, to look at our universities as vital ingredients in a new effort to maintain our position in a world of increasing international economic competition.

Granted we have the right to ask our universities that they operate responsibly, meet certain standards, strive for excellence, and that they also function in close co-operation with industry.

But we Canadians really have to pay more attention to, and take better care of, our universities. We also have to insist that our governments show them more concern.

The politicians can probably be excused for taking the stance they have with respect to the universities. That is, for trying to squeeze larger and larger numbers of students onto our campuses at the least possible cost, with little real regard for the quality of the programmes provided. They have been responding to public opinion as they perceived it.

This is why I want to try to persuade each of you today to give some of your attention to our universities' very real financial problems.

We ourselves, in the universities, are at an understandable disadvantage when we take our case to the government; our views are discounted. But I would hope people such as you, who are facing the problem of what's happening to the Canadian economy on a day-to-day basis, would have some impact, if I can persuade you to join our cause.

Some encouraging statements have been made of late. The Hon. Gregory Sorbara, the new Minister of Colleges and Universities in Ontario, recently announced a new $50-million "university excellence fund" at the time of National Universities Week, last month.

He said then that the $50 million was just a "first step" and affirmed his party's commitment to post-secondary education in Ontario, a commitment, he said, the government is not going to abandon. He said:

"Universities are a vital resource to current and future generations, but have suffered deterioration as a result of a decade of chronic underfunding."

We in the universities were very pleased with those comments. I'd like to say something more about that in a moment but, first, may I add one further thought in connection with the $50 million of special funding? It is fine and we are very appreciative, but it is still a very modest amount compared with what some other provinces are doing (let alone compared with what some other countries are doing).

For example, Saskatchewan recently announced a similar arrangement, $25 million additional to its universities each year for five years. When you consider that the population of Saskatchewan is only one-eighth the population of Ontario, you can see how great a challenge we face.

In Ontario, statements from the Premier, the Treasurer, and the Minister of Colleges and Universities may be encouraging, but what we must realize is how far we have to go.

Ontario is at least 20 per cent behind the average of the other nine provinces in its support to its universities, and it is probably, effectively, even worse than that because we have a higher proportion of students in medicine, engineering and graduate work than would be found in the others.

Moreover, it is not just that we are behind the rest of Canada; Canada seems to have fallen well behind other countries.

A U.S. publication recently reported on American state appropriations for higher education. Some of the increases in funding for state universities make interesting reading. For example, over the past two years, funding for state universities in California went up 31 per cent; funding in Massachusetts increased 31 per cent; in Michigan, 26 per cent; in Tennessee, 35 per cent, and so on.

One of the reasons the State of Maine increased its funding substantially was because, and I quote:

"University education is seen as integral to the development of the state's economy."

At the national level, in the United States, George A. Keyworth, science adviser to the President, has already led a major shift of resources from government labs to university research. For the second Reagan term, he proposed, and action is proceeding on, further university research funding at the national level. His statement of U.S. national objectives is: to help universities attract and retain faculty of the highest quality; to help with the generation of basic knowledge, especially in areas of particular importance to the United States' industrial competitiveness; to support broadly based interdisciplinary university research; to find better ways to stimulate the flow of ideas, expertise and people among federal labs, universities and industry, and to provide for more responsiveness to opportunities to support emerging technologies.

Similar initiatives are to be seen in Germany, France, the United Kingdom and Japan.

The reason those countries are investing in universities is simply that they have a clear view as to what the universities can contribute to economic development in a technological age. They know that they are simply *not* going to have microtechnology, biotechnology, and so forth without excellence in both teaching and research in the universities, and without constructive continuing relationships between their universities and business and industry.

I can assure you that our Canadian universities are willing to work with our federal and provincial governments, with each other, and with the industrial and business community to enable Canada to acquire and develop the technology we so badly need.

I'd like to tell you about our students who work on obsolete equipment in our teaching labs; about lab sessions where we crowd too many students around too few pieces of equipment; about upper-year classes with 70, 80 and more students when for optimum teaching impact there ought to be no more than 20 or 25; about a student/teacher ratio of 23 to 1, whereas in good universities in other countries the ratio is only about 12 to 1, and sometimes as low as 8 or 9 to 1. I can tell you about library budgets that have lagged, in universities all across the land.

But one of the most worrisome things of all is that we may be on the verge of a brain drain the like of which hasn't been seen in this country since the early Fifties.

Do you remember, in the late Forties and early Fifties, when some people graduating from our universities didn't even bother to look for a job in this country? They simply headed for the United States and never returned, except for vacations.

What we're seeing now is that some of the very best and brightest of our teachers and researchers are being lured southwards.

Toronto media paid some attention recently to the fact that our dean of mathematics has resigned to take up a post at the University of Tennessee (where, as you just learned, funding increases have been averaging close to 15 per cent per year). Here is a young (42), Canadian-born computer scientist, a brilliant researcher. He is, moreover, an excellent administrator, contributing significantly to the success of our Institute for Computer Research as well as to the success of our Faculty of Mathematics, which happens to be the largest in the world.

And now we've lost him. Since his resignation, two weeks ago, we have learned that we are losing two more computer science faculty members, two microelectronics experts from electrical engineering and an accounting professor for a total of six in just over two weeks! We're not unique; losses are being experienced elsewhere.

There is a massive new wave of support for higher education south of the border and it is going to make our problems even more difficult. The Americans, from President Reagan on down, have come to recognize that their universities can serve as important engines for economic development.

They, of course, have seen this happen already. They have

Stanford University and Silicon Valley. They have Massachusetts Institute of Technology and the development around Boston. And there are other examples.

It is often noted that Canada has no M.I.T. The reason is very simple. Our policies do not allow one to arise. If M.I.T. were picked up and moved to Canada, it would shrivel up and die.

In a talk given in the United States two years ago, Roland W. Schmitt, head of General Electric's research-and-development division, stated:

"Government has a crucial role to play in creating favourable conditions for commercial innovation, but not in actually producing those innovations. The most important step that government can take is to insure and strengthen the health of our university system in both the performance of basic research and the training of research manpower."

This is perhaps a particularly timely occasion for me to be speaking to you, because the subject of transfer payments will be on the agenda for the First Ministers' meeting in Halifax, tomorrow.

About 10 years ago, the federal government modified its support for higher education, which had been on a 50-50 basis with the provinces. At that time, the feds agreed to transfer their money unconditionally.

Because of public indifference, about which I have already spoken, the Conservative administration here in Ontario applied a lot of those moneys to other purposes, with the result that in Ontario today federal government transfer payments cover almost 90 per cent of the total transfer from the province to the universities.

It is understandable that the federal government should be concerned about this large expenditure for which it gets no political credit, and for which it can expect no real accountability.

On the other hand, it would be very damaging to the provincial governments and to the universities should the federal government reduce these transfers. The universities are therefore very concerned. We fear we may be whipsawed in the dispute between Ottawa and the provinces.

I believe the public interest requires the federal and provincial governments to find a basis for co-operation that will strengthen and *not* further impair the capacity of our universities to fulfill their responsibilites.

Now, if all this has sounded a little gloom-and-doomy, it should be noted that, while we *are* in a crisis situation at this point in our history, we also have before us one of the most promising, most exciting challenges one could possibly imagine, if we play our cards right. The high-tech era we're now entering holds forth much hope for us as Canadians.

As you know, when we speak about high tech, some of the buzz words often used include the "knowledge economy" and the "knowledge society" and we also talk about "computer communications," "robotization," "computer-integrated manufacturing," and so forth.

But it is starting to look as though the knowledge society is going to be still more sophisticated. Some of us visualize an environment in which computers will come to process information content in language, just as they now process information content in numbers.

You've surely heard of the so-called "fifth generation" computer technology and the effort Japan is putting into that concept. The latest news is of a "sixth generation" of computer technology, to arise from subjects such as philosophy, psychology, linguistics, logic and so forth. In short, technology based on ideas and language.

This is startling, perhaps, but just look how we take for granted now the notion of 250,000 or a million transistors on a tiny piece of silicon.

Technology is know-how, and know-why. Technology helps us do things that may not otherwise be possible. In the past, technologies came from our knowledge of physics, chemistry and the traditional engineering disciplines. Today, we have the promise of biotechnology—technology arising from biology and chemical engineering.

Twenty-five years ago, mathematics was a subject for a few people who wanted to be teachers. Today, mathematics is the basis for much of our modern computer science and technology. Tomorrow, surely, we will find commercially important technologies arising similarly from disciplines that seem esoteric and not very useful today.

What Canadian universities can do, and should be doing, is to provide explorations into such areas. The reasons for this are to develop our own expertise, and to keep us informed as to what is being done elsewhere. For while we Canadians can never hope to generate all the technology we will need in the future, we ought to develop what we can, and we ought to understand the significance of what is being developed elsewhere so we can use it and adapt it to our problems and opportunities.

One final comment with respect to sixth-generation computing and the "knowledge society."

As you may be aware, the University of Waterloo has recently become involved in the computerization of the *Oxford English Dictionary*. On the surface, this may seem an esoteric activity, but we are starting to find it has many extraordinary implications.

In order to computerize the world's most complete record of the English language, we find ourselves learning things about that language that no one has ever before truly appreciated. We also find that we are moving a step closer to the day of the computer that can deal in language, instead of in numbers alone. And, of course, we are learning about managing very large data bases!

I can't urge you, or other fellow Canadians, strongly enough to make sure this kind of activity is permitted to continue, to expand and to develop. If we don't, we'll surely have to buy more and more of our advanced technology from Japan, Korea, Taiwan, Switzerland, and goodness knows how many other countries. We simply won't *have* it here if we fail to finance our universities adequately to permit this work to continue.

And if this interest and this research potential are permitted to wither on the vine, we'll face economic difficulty in Canada such as we've never dreamed of before. That will be, to say the least, very disruptive socially. Frankly, if I were some kind of subversive and wanted to absolutely ruin Canada, I couldn't think of a better way to go about it: just destroy our country's technological capability in a world of high technology. I think it's that serious.

The appreciation of the audience was expressed by Maj. Arthur J. Langley, C.D., a distinguished Past President of The Club.

Rainer Gut

Chairman, Credit Suisse (Zurich)

EUROSCLEROSIS: FACT OR FICTION?

December 5, 1985

The President
Harry T. Seymour, Chairman

Mr. Seymour

Distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today Rainer Gut, Chairman, Credit Suisse, Zurich, Switzerland.

Since joining Credit Suisse's U.S. investment banking affiliate, Swiss American Corp., in 1971 as Chairman and Chief Executive Officer, Rainer Gut has enjoyed positions of increasing responsibility, including Deputy Member of the Executive Board at the head office of Credit Suisse in 1973; member of the Executive Board in 1975; Speaker of the Executive Board in 1977; President of the Executive Board in 1982; and Chairman of the Board of Directors in 1983.

Credit Suisse was founded in 1856, eight years after Switzerland's first Federal Constitution, a milestone in Switzerland's political and economic development, came into force. With the acceptance of the Constitution, the country's communications system was unified, citizens obtained the freedom to choose their place of residence, and the Swiss franc was adopted as the national currency. The new freedom for trade and commerce paved the way, in the economic field, for private initiative and enterprise.

It was against this background that Credit Suisse was founded, with the particular task of assisting in the financing of transportation and industrial development in Switzerland.

In 1856, difficulties were encountered in talks with foreign banks over the financing of the North-Eastern Railway, establishing a need for an independent bank. It prompted Alfred Escher, a member of an eminent Zurich family, to found Credit Suisse, which opened for business on July 16.

From this modest beginning, the bank has grown and prospered. In the six months ended June 28, 1985, the bank, with total assets of US $34.1 billion: acquired a 29-per-cent (possible 85-per-cent) position in the London brokerage house of Buckmaster & Moore; established a new financial institution in Frankfurt, West Germany; formed a joint trust-banking facility in Japan with Mitsui Trust & Banking Co.; and opened a representative office in Beijing.

Already a partner in the largest issuing merchant bank in the Eurobond market, Credit Swiss First Boston Group, the new West German operation further expands the bank's Eurobusiness by providing it with the ability to directly manage DM-denominated Euro-issues.

Rainer Gut, the architect of this aggressive international expansion, is no stranger to North America. After a brief stint as New York representative for the Union Bank of Switzerland, he joined that legendary investment-banking firm, Lazard Frères, where he rose to be a general partner in 1968.

However, Gut never got used to Andre Meyers' stifling control. After having his fishing trip to the Laurentians interrupted by Meyer for no sensible reason, he made up his mind to leave Lazard. Cary Reich, in his book *Financier, The Biography of Andre Meyer*, writes:

"From his vantage point atop Credit Suisse, Gut could certainly afford to wax sentimental. But he had no illusions about the life he had left behind. 'It's almost like hay fever,' he told a friend. 'The moment it's over, you can hardly imagne how bad it was.'"

Ladies and gentlemen, it gives me great pleasure to introduce Rainer Gut, Chairman, Credit Suisse, Zurich, Switzerland, who will address us on the topic, ‘‘Eurosclerosis: Fact or Fiction?’’

Rainer E. Gut

Europe has frequently had a bad reputation. Its name alone derives from a beautiful though somewhat doubtful girl called Europa who, according to Greek mythology, attracted the amourous attentions of mighty Zeus. In subsequent centuries, Europeans have repeatedly been subject to unflattering comparisons with other, supposedly better, nations such as, for example, in the 18th century during the period of the Enlightenment with the just Persian, the wise Chinese or, in general, the noble savage.

But time and again, Europe has successfully refuted such disparaging judgments. Thanks to its missionary zeal, Christianity became a world religion; moreover, our small continent Europeanized the entire world and even dominated it politically until well into the present century.

The collapse of European supremacy after World War II provoked a new wave of European self-criticism. In the mid-1960s, the French publisher and politician J.J. Servan-Schreiber summed up the mood when he wrote about the American challenge that Europe could not resist.

But this post-war despondency did not last. The European economic successes in the 1960s, the problem of the U.S. in Vietnam, the weakness of the dollar, the Watergate affair, and the Presidency of the unfortunate Jimmy Carter, gave European self-confidence an enormous shot in the arm; but not for long.

The achievements of the Reagan Presidency caused Europe’s arrogance to vanish and that of America to grow correspondingly. The terrible word of Eurosclerosis was invented. Europe, it was claimed, is suffering from hardening of the arteries, and as arteriosclerosis in humans is incurable, the implication was that Europe was doomed. In short, Oswald Spengler's "Fall of the West," we were told, is about to be fulfilled.

But are things really that bad? The rapid change of optimism and pessimism with respect to these major structural issues in recent years is by itself sufficient reason to doubt the correctness of all such sweeping judgments. Moreover, anyone who has followed the ups and downs of Europe's fate through history will be inclined to say that the Old Continent, or what is left of it after the upheavals of the 1940s, can hardly be written off as yet. After similar difficult periods in the past, it has always pulled itself together and resumed the march forward. Whether it will do so again this time is, of course, a question of vital concern.

The present wave of Europessimism which started a few years ago has two main roots. First, the economical, technological and political upsurge of Japan, which has overtaken Europe as an industrial power. Second, the revitalization of the United States, which after a decade of debacles, has, as expected by us, reasserted itself since 1980 as the leading power of the Western world, and not just politically, but above all economically.

By comparison, Europe's recent performance looks lame indeed. Not only economic growth rates were lower than the American ones until recently, but the level of unemployment began to exceed that of the U.S. Politically, too, the reputation of Europe also declined, in spite of British success in the Falklands. Correspondingly bitter became Washington's criticisms, which the rest of the world, but also Europe with its traditional propensity for self-incrimination, has readily accepted.

The charges levelled against Europe revolve around four main points: first, in the political field, the potential Finlandization of Europe and the unfulfilled promises of the European Economic Community; second, Europe's alleged technological backwardness; third, rigid economic policies oriented towards preserving outmoded structures; fourth, the high European unemployment.

These issues and problems are admittedly serious, and of major importance for the future of the Western world. There is no denying that the danger of Finlandization exists, but what does this amount to? From my vantage point, two facts have to be emphasized. First, I have the greatest admiration and understanding for Finland's policy toward the Soviet Union, which, in its broad concepts, reminds me of the Swiss posture against the European great powers, thanks to which my small country could stay out of major military conflicts and maintain its independence.

Second, Finland is vividly aware of the fact that its independence is closely related to its own and its friends' defense preparedness, which makes any potential attack very costly, thereby acting as a deterrent. Europe appears in its overwhelming majority to be aware of this necessity, even if not yet willing to face all resulting consequences with respect to defense outlays and issues. The old Roman adage, "If you want peace, prepare for war," is in general no longer seriously contested.

For these reasons, it would perhaps be more constructive on the part of the U.S. to constantly admonish its European allies about their military obligations than to use the Washington pulpit to preach the purely negative and, as will be shown, largely untrue gospel of Eurosclerosis.

No doubt, these military issues constitute European key problems. But, fortunately, they are increasingly being recognized by governments of both right and left, as is shown by the policies of President François Mitterrand of France and Prime Minister Margaret Thatcher of Britain.

The same can, unfortunately, not be said as regards the policies of the European Community. True, its great achievement consisted in unifying the western part of the Old Continent to such an extent that the fratricide of European nations, which formed such a bloody trace through history, has been made virtually impossible for the future. But unfortunately the Community shows a tendency of late to promote, instead of market-oriented policies, an atmosphere of agricultural protectionism, a trend that could be reinforced by the recent accession of Greece, Spain, and Portugal.

Accordingly, there is a threat of a new historical paradox that could turn the earlier dream of an economically and politically unified Europe, of a United States of Europe, into the new reality of an international agricultural pressure group, subsidized by the European taxpayer.

Of the danger of these developments, European statesmen are becoming more and more conscious, as indicated by the various initiatives recently taken to speed up the process of integration and to reduce agricultural protectionism. Much will depend upon the success of these steps for the future of the international economy.

The second major charge levelled against Europe, that of technological backwardness, is less serious. True, it is claimed that, in modern fields of technology, notably electronics, information technology, space exploration and genetic engineering, Europe has lagged far behind its American and Japanese competitors. By virtue of their scientific superiority, foreign corporations are penetrating the nerve centres of the European economy; it is said to be in danger of losing its independence. This analysis may appear plausible at first sight. It, however, reflects a number of misconceptions about the relationship between industry and technology.

The United States and Japan certainly have an impressive technological lead in various fields. But is this gap really decisive?

Invention and technological knowledge are not the crucial ingredients of entrepreneurial success, but the ability to translate this knowledge into marketable products is required. An example will show what I mean. In the early '60s, the German Leica camera still was the standard of quality in the field of photography. Despite this, its sales started to fall off, not because it had become obsolete, but for the very opposite reason. Its manufacturer, refusing to bow to the trend towards simple automatic cameras, continued to produce a technological top product, and thus overrefined it to such an extent that it became too sophisticated and expensive for anyone except a small circle of camera cranks. The company's market share shrank and its commercial success declined. Technological excellence alone is, therefore, not enough. Products must be offered and marketed in the form desired by the buyers.

Moreover, a look around department stores, factories and freight depots proves that products based on the highest standards of modern electronics, biophysics, and optics, make up only a small proportion of the goods offered. The broad markets are for ordinary products such as foods, cars, vacuum cleaners, clothing, toys, cosmetics, beverages, and so forth. Producing these commodities as cheaply as possible and offering them in the form the consumer wants is the task of the entrepreneur; that is the vital force that keeps industry alive and competitive.

Viewed from this standpoint, Europe is not doing badly at all. In pharmaceuticals, in machine tools, in foods and telecommunications, it participates in international commerce with shares of 30 to 40 per cent, not to mention banking and insurance. As regards world trade, it has defended its share of 36 per cent at present at least as well as the United States, though somewhat less successfully than Japan. Whereas America runs a huge current-account deficit, Europe chalks up substantial surpluses year after year, which are likely to amount to US $23 billion in 1985 and an estimated almost $40 billion for 1986. All this certainly does not point to any substantial economic or technological backwardness.

The third point made by Europe's critics is the pursuit of backward-looking economic policies. It is true that featherbedding policies on employment and social services were pursued for a longer time in Europe than in overseas industrialized countries. The resulting burdens on the European economy are heavy, and it will take time and effort to remove them.

But it was precisely in the land of the spiritual fathers of the old approach, British economists J.M. Keynes and W.H. Beveridge, that the first breakthrough came. In 1979, the British Thatcher government moved resolutely towards more modern, market-oriented policies. When the United States followed suit in 1980 under the newly elected President Ronald Reagan, all Europe felt the wind of change. Even countries with socialist governments, such as Mitterrand's France and Olof Palme's Sweden, which at first tried to resist the new trend, soon had to bow to the constraints of the market.

Today the basic attitude of European governments towards private enterprise is constructive and friendly. There is now increased respect, and even direct encouragement, for business achievement. The markets have been deregulated, especially in banking and finance, competition in non-agricultural sectors has been encouraged and uncompetitive industries have been drastically slimmed, in many cases through the withdrawal of subsidies. In Britain, France, the Federal Republic of Germany, Belgium and Spain, hundreds of thousands of jobs have been cut in the coal, steel and shipbuilding industries, with the result that Europe now appears to be in better shape in these sectors than the United States. The situation is similar in the textile industry, which has been largely restructured.

Unlike the United States, however, Europe with the exception of Britain, has so far made little progress in easing the burden of taxation. A major obstacle is Europe's high governmental spending, now amounting to 40 per cent or more of GNP. The room for tax cuts is therefore restricted, all the more so as European governments desire to keep public borrowing as low as possible. In fact, budget deficits in Europe, omitting the special case of Italy, amounted to only 3 per cent of GNP in 1984, as against 6 per cent in the United States, while Europe's rate of saving, at almost a fifth of GNP, is substantially higher than America's. The result was that European industry has generally been well provided with relatively cheap finance.

Precisely from this vantage point, the fourth major criticism made in connection with the subject of Eurosclerosis, that of the unsatisfactory state of employment, receives its special feature. The U.S. employment miracle, 16 million new jobs since 1973, has caught the public's imagination. It contrasts starkly with the position in Europe, where, until a short time ago, unemployment was still rising. Europe's jobless rate, which for many decades had been consistently lower than America's, has shot ahead over the last few years.

If these trends are analysed more carefully, it becomes evident that the European unemployment problem has three main causes. The first is connected with demographic factors. Actually, as a result of the baby boom of the 1950s and early 1960s, the total labour force has risen by 24 million persons in Europe since 1970. Not all of these people have found work, although Europe, too, has created millions of new jobs. However, this demographic trend is set to go into reverse at the end of this decade or the beginning of the next, thus automatically causing an improvement in the employment situation.

The second major reason for rising unemployment was, of course, the severe restructuring and redimensioning, to which, as mentioned earlier, several European branches have been subjected in the last ten years or so. The required adjustments have been rendered more difficult by the until-recent steep climb in European wages and employee benefits, which pushed up the labour cost to a level that made many European corporations, and indeed whole industries, non-competitive.

To this was added, as a third factor in the unemployment picture, the relatively low European interest rates, which promoted the rationalization and automatization of production processes. As a matter of fact, while unemployment rose, labour productivity increased substantially in Europe during the recent past. Under the impact of unemployment, wage rises have meanwhile noticeably decelerated of late. At the same time, the interest in entrepreneurial activities and the formation of new small firms has also risen, while the unions, which help only the employed but are virtually uninterested in the jobless, are losing power and influence. Accordingly, similar conditions start to emerge in Europe as those that laid the foundation of the recent U.S. employment miracle.

Thus, all in all, Eurosclerosis looks more like fiction than fact. Western Europe, like other parts of the world, has to adapt to the changing environment of a world in transition. This process offers the long-term prospect of significant advances in prosperity, but involves at present the pain and sacrifice of adjustment.

It is now being claimed, however, by some quarters, that these difficulties could be circumvented easily and successfully by means of isolationist and protective policies. According to this view, Europe should tackle its unemployment problem, America its inadequate rate of productivity improvement and Japan its excessive reliance on exports, by purely domestic measures without regard to their international implications.

Such recipes were common in the 1930s, when they also amply demonstrated their catastrophic consequences. In today's shrinking world, they are totally pointless. That applies not just to Europe but to the entire free world, whose fate would be sealed if such policies were adopted. Fortunately in Europe, and hopefully elsewhere too, these siren songs find virtually no ear among responsible politicians. The problem of unemployment is, to be sure, morally and politically unacceptable in the long run. But governments seem agreed that it must be solved globally in a market-oriented way.

Europe's efforts in this direction have until recently been seriously impeded by high U.S. interest rates, which have meant that European savings, instead of stimulating investment at home, have largely been lured across the Atlantic to plug the U.S. budget deficit. Conversely, Washington has accused Europe of lacking the courage to adopt expansionary fiscal policies; but, in fact, such an approach was blocked by the inflationary pressures imported into Europe on the back of the strong dollar. These experiences clearly demonstrated the problems and limits of pursuing purely nationalistic economic policies without international co-ordination.

Governments have lately been showing an increased awareness of the requirements of the situation. From our point of view, at any rate, the recent economic policy decisions of the five major Western countries represented an important and happy turning point.

Not only have official interventions helped to restore the dollar to an economically sounder level, thereby reducing if not eliminating the international economic tensions resulting from its overvaluation. Moreover, there now seems to be among the authorities a clear perception of the flanking measures needed.

For the United States this means, basically, a less restrictive monetary policy and increased efforts to reduce the budget deficit, whereas Europe's main surplus country, West Germany, but also Britain and Japan, seem to adopt a somewhat tighter monetary posture coupled with a more expansionary fiscal policy.

The third element in this new-look approach is the Banker Plan, which signals a break with Washington's former hands-off policy towards the international debt problem and stresses America's interest in its lasting and constructive solution, especially with regard to Latin America. Although the details of all these programs are not yet worked out and perhaps will never be worked out formally, there can in my view be no doubt that in recent weeks the world has become a safer place economically. A collapse of production and finance in the Western world appears to be not on the cards at the moment.

Against this international backdrop, Europe looks set to turn in another impressive economic performance in 1986. GNP growth will admittedly lag somewhat behind that of the United States, in contrast to 1985, but at three per cent it will be well above this year's rate. All major European countries except Britain and Sweden can expect to see an acceleration of activity, with unemployment falling slightly and inflation down to 4.2 per cent.

Europe's aggregate current account will remain in the black, thanks mainly to surpluses in Germany, the Netherlands and Switzerland, whose currencies still look like candidates for further appreciation. The main engine of European growth in 1986 will not be exports but private consumption and investment. Geographically, expansion will probably be most pronounced in Germany and France, followed by Spain and the Netherlands.

Looking slightly farther into the future, and disregarding the possibility of international catastrophes, we expect that in 1987 the upturn will start to run up against its real limits, with the economic brakes again having to be applied to fend off inflation. That will probably mean a temporary slowdown, though not an actual recession.

After 1989, the forces of expansion should again come to the fore, supported, among other things, by the growth in world population and a new wave of technology-driven investment, the financing of which will be facilitated by the positive attitudes of European governments towards saving and private enterprise.

Now perhaps you will be wondering what this optimism is based on, and in particular what makes us think that the economic climate is going to remain favourable to the private sector. Are not the socialists barking at the door in Germany, and the Labour party in Britain? Ladies and gentlemen, I am no politician, but I do not believe there is going to be any fundamental political about-turn in Europe.

For one thing, socialist governments have been forced by circumstances in recent years to adopt market-oriented policies. Moreover, the neo-conservative mood among voters is holding up. An exception might be the forthcoming referendum on Spanish membership in NATO, which could result in Spain's withdrawal from the alliance. But the resultant problems, and especially their bearing on another NATO country, Greece, should not be overdramatized. Other deviations to the left are however unlikely.

Hardly anyone now doubts that next March will see the return of a centre-right majority in France. That, of course, could spark off a constitutional crisis, with the President facing in Parliament a majority of opposition, which however could only outvote the left with the support of the extreme right under Le Pen. The consequence might well increase uncertainty in domestic and foreign policy, but the present market-oriented economic approach would hardly be abandoned.

In West Germany, which will vote in 1987, almost all serious political analysts and commentators believe that the socialist party's tactic of vacating the middle ground and flirting with the Greens and the extreme left will lead to serious setbacks at the polls and on the federal level. According to these experts, the present government coalition therefore looks certain to be re-elected, not just next time but probably at the start of the 1990s as well.

There is even less doubt, in view of Britain's electoral system, that the British Conservatives under Mrs. Thatcher will be returned to office, though probably with a sharply reduced majority, in the next general election, due no later than the spring of 1988.

As for the other countries of Europe, elections in Italy have never changed anything, while in the smaller states voters still prefer market freedom to socialist ideology, as was recently confirmed in Belgium and will probably soon be demonstrated again in Austria.

Thus there is little sign of sclerosis either in Europe's economy or among its electorates. The false prophets who prescribed the mistaken remedies of the 1970s are unlikely to be heeded. Our continent is now beginning to master the problems that those treatments caused. Politically and economically, Europe has a future. Comparisons with the present dynamism of the Far East could well prove deceptive.

In my opinion, the West, including North America and Australia as well as Western Europe, remains the most important guarantor of human progress in freedom and prosperity. It is upon us all, ladies and gentlemen, to take up this challenge.

The appreciation of the audience was expressed by Douglas Derry, a distinguished Past President of The Club.

The Hon. Lincoln M. Alexander, P.C., K. St. J., Q.C.

Lieutenant Governor of Ontario

CHRISTMAS LUNCHEON

December 12, 1985

The President
Harry T. Seymour, Chairman

Special Performance by the Branksome Hall Senior School Choir

Daniel Biddle	Director of Music
Ronald Jordan	Accompanist

Mr. Seymour

Your Honour, distinguished guests, members and friends of The Empire Club of Canada: The luncheon today is a continuation of one of our most enjoyable traditions, established in 1913 when The Empire Club was just ten years old. It is a luncheon at which we encourage our family and friends to join us for highly traditional fare, including plum pudding, and Christmas entertainment.

The consistently high attendance at this annual luncheon is testimony to the pleasure and enjoyment it brings to all of us at this very special time of year when we pause for a brief interlude to reflect on the true "Peace on Earth, Good Will to Men" spirit of Christmas.

Another traditional aspect of this luncheon has been the honour bestowed upon this club through the presence of the Lieutenant Governor of the Province of Ontario. It is the presence of Her Majesty's personal representative and honourary vice-president of The Empire Club of Canada, the

Hon. Lincoln Alexander, that distinguishes this occasion.

A lawyer and war veteran, His Honour was first elected to the House of Commons in the general election of June, 1968, and was subsequently re-elected in the general elections of 1972, 1974, 1979 and 1980.

In addition to being the Minister of Labour in the Rt. Hon. Joe Clark's minority government of 1979-80, Lincoln Macauley Alexander served as his party's spokesman on such universal subjects as housing, labour, unemployment insurance, manpower, immigration, welfare and public services, during his sixteen years as a member of the House of Commons.

A tireless worker whose efforts were respected by all with whom he worked, whether in the legal profession or in politics, His Honour was chosen by the Prime Minister and installed as Ontario's twenty-fourth Lieutenant Governor on September 20, 1985.

A graduate of McMaster University and of Osgoode Hall Law School, and the recipient of numerous honours and awards, His Honour is married to the former Yvonne Harrison. They have one son, Keith, who is with the Regional Municipality of Hamilton Wentworth.

Your Honour, on behalf of all who are gathered here today, it is my pleasure to extend to you and to your family our very best wishes for a Merry Christmas and a Happy New Year. We pledge to you our deepest affection and loyalty and, through you, to Her Gracious Majesty The Queen.

His Honour, the Lieutenant-Governor, as the representative in and for the Province of Ontario of Her Majesty Queen Elizabeth the Second, brought greetings and best wishes for a Merry Christmas to all members and friends of The Empire Club.

Mr. Seymour

Thank you, Your Honour. We appreciate your consideration in joining us today, and, although your gracious wife was not able to join you, I hope that you will extend to her the very best Christmas wishes on behalf of The Empire Club.

Your honour, ladies and gentlemen: It is now my pleasure to introduce to you the Senior School Choir of Branksome Hall, under the very able direction of Daniel Bickle and accompanied by Ronald Jordan.

"Let There Be Carols," a programme of Christmas music, was then sung by the Branksome Hall Senior School Choir.

The thanks of the meeting was expressed by Colonel Robert Hilborn, President of The Empire Club Foundation and a distinguished Past President of The Club.

The Hon. R. Roy McMurtry, Q.C.
High Commissioner for Canada
to Great Britain

CANADA-U.K. RELATIONS: A FRIENDLY CHALLENGE

January 9, 1986

The President
Harry T. Seymour, Chairman

Mr. Seymour

Your Excellency, My Lord the Queen's Chief Justice of Ontario, Honourable Gentlemen, Consul-General, other distinguished guests, members and friends of The Empire Club of Canada:

It is my pleasure to welcome as our guest speaker today the Honourable Roy McMurtry, High Commissioner for Canada to Great Britain:

It has been said of our guest today that he is somewhat of a paradox:

> "On the one hand, he seems to have been the quintessential civil libertarian who fought for the abolition of capital punishment and for the constitutional entrenchment of fundamental rights and freedoms. But, on the other, Ontario's former Attorney General has been a strong advocate of law and order and a big booster of the police."

Prior to his appointment as High Commissioner for Canada to Great Britain in the spring of 1985, our guest had achieved considerable notoriety as an athlete, trial lawyer, politician, and accomplished landscape painter.

First elected to the Ontario Legislature as a Member for the Toronto riding of Eglinton in 1975, His Honour was re-elected in 1977 and 1981. During his ten years as a sitting Member of the Legislature, he held the extremely responsible cabinet positions of Attorney General from 1975 to 1985 and Solicitor General from 1978 to 1982.

His previous 17 years' experience as a trial lawyer served to increase his effectiveness in these portfolios because he knew his way around Ontario's court system.

Roy McMurtry left public office in the spring of 1985 with a glittering string of accomplishments behind him. High on his list of personal satisfactions would be the patriation of the Constitution and the entrenchment of the Charter of Rights and Freedoms. McMurtry, then-Justice Minister Jean Chretien, and then-Attorney General Roy Romanow of Saskatchewan, worked out the deal that broke the deadlock between former Prime Minister Pierre Trudeau and the Premiers. The Constitution was patriated and the "Charter" became the supreme law of the land in the spring of 1982.

Other initiatives for which McMurtry feels proud include (1) The Family Law Reform Act, which, for the first time, gave women the right to an equal share in family assets in a marriage breakdown, and, (2) The Courts of Justice Act, a massive overhaul of court procedures designed to make the judicial system more accessible and cheaper for litigants.

The Canadian High Commissioner is married to the former Ria Macrae. The McMurtrys have six children and reside in a new apartment provided for the High Commissioner in Macdonald House on Grosvenor Square. I know, sir, that with most of the children pursuing their own careers now, it may allow you more time for your great interest in sports and in landscape painting, this time in the beautiful English countryside.

Ladies and gentlemen, our guest today needs no further introduction. It gives me great pleasure to welcome the Hon. Roy McMurtry, who last addressed The Empire Club on February 18, 1980, and ask him to address us on the topic, "Canada-U.K. Relations: A Friendly Challenge."

Roy McMurtry

Mr. President, Your Excellency, distinguished guests, ladies and gentlemen of The Empire Club of Canada:

Thank you for your welcome. I am, of course, delighted to have the opportunity of addressing The Empire Club again. On 6th March 1980, I spoke to the Club on the constitutional challenge lying ahead for Canada. In concluding, I reflected on the fact that "the drama is still continuing to unfold and we cannot guess its conclusion." Perhaps prophetic words. Certainly for me and the gentlemen that I worked most closely with on the Constitution, Jean Chretien and Roy Romanow, the drama following the constitutional accord of November, 1981, has had many interesting political twists and turns. It is interesting for me to reflect that, at this time last year, I was searching the province for delegate support. Certainly no one would have guessed that it was to be but the first of two leadership conventions in 1985 for the Progressive Conservative Party of Ontario. In any event, my not-so-well-planned route to London encouraged one of my friends to offer a new definition for a High Commissioner as "one who is denied a job by his provincial colleagues, but who is given employment by the Prime Minister on the condition that he leave the country."

On a more serious note, I am personally very pleased that the British High Commissioner to Canada, Sir Derek Day, has honoured me, and indeed us all, with his company. He is an experienced and widely respected diplomat who has given distinguished service to his country. Immediately after my appointment was announced, Derek called to congratulate me and to offer his assistance. His encouragement and advice from the start have been very important, and, most of all, his friendship. We share a strongly held view that the enhancement of the relationship between our two countries is of crucial importance, not only to both nations, but to the international community as a whole.

Relations between Canada and the United Kingdom have deep and extensive roots. The forces of a shared history, continued British migrations to Canada and family ties, our cultural inheritance from Britain, the education of many Canadians in the U.K., tourism, professional and business contacts, parliamentary ties, military co-operation, and government-to-government contacts continue to work for a very extensive and close relationship. These elements remain vital underpinnings to one of the closest bilateral relationships that Canada has anywhere in the world. The experience of the last fifteen years has shown, however, that they are no longer sufficient to sustain the vitality of the relationship or provide a basis for its expansion. Traditional and sentimental ties with Britain have now to be set against the recognition of considerable changes marked by Britain's increased role in the Europe of the past ten years and also of a Canadian preoccupation with its relations with the United States.

The two countries have, therefore, tended to grow apart, through no deliberate design, but by force of external circumstance. The changing ethnic make-up of the two countries and the simple passage of time since the Second World War have also played their part. At the level of public perception, sentiments of active sympathy have progressively given way to benign indifference.

This concern was expressed at the first Anglo-Canadian Colloquium in 1971 by the chairman, the Honourable Alistair Buchan, son of our former Governor General, Lord Tweedsmuir:

"We have come here to talk from a sense in all our hearts, I think, that the Anglo-Canadian relationship, political, economic, cultural, has been gradually eroding; that as Britain prepares to enter the European Economic Community (EEC) and Canada becomes more deeply involved in the American economic system as a producer and begins to look more to the Pacific as a trader, as our press and other communications and cultural links become merely part of a global system of electronic chatter, as names like Vimy—or even Falaise and Monte Cassino—cease to be evocative, as the requirements of international politics make the relations of kith and kin and the whole concept of cousinly affinities less tenable, we are in danger of repeating the experience of, say, Spain and Peru, countries once so close in their relations that a man could make a profession in either country yet which have virtually lost sight of each other in the Hobbesian jungle that we dignify by the name of the international system."

The process of reinvigorating and strengthening the bilateral relationship must eschew nostalgia, and be based on the recognition of current realities in identifying new interests, new opportunities and new mechanisms. At issue is our ability to interest and influence public opinion and attitudes. One of the most important tasks of Sir Derek and me is that we do not become complacent, that we do not allow ourselves or others to take the relationship for granted.

The broad political context in which we are called upon to fulfil this mission is undoubtedly conducive to success. We share with Britain common purposes in the collective defence of Western security and values, in the pursuit of improved East-West relations and viable arms-control agreements, in fostering economic development and political stability in the Third World, and in enhancing the opportunities provided our countries in the international trading system. To these ends, we work closely with Britain in NATO, the CSCE, the United Nations and the OECD, as well as bilaterally. Britain and Canada are the principal material mainstays of the modern multiracial Commonwealth.

At the recent meeting of Commonwealth heads of government in Nassau, we once again demonstrated that differences of view as to means could be overcome by shared goals, as Prime Minister Brian Mulroney was able to draw upon the relationship of confidence and trust he has established with Prime Minister Margaret Thatcher in helping to forge a consensus on the thorny problem of South Africa. Contentious issues do, of course, exist in our relationship with Britain, whether they concern the British Government's decision to withdraw from UNESCO, Canada's vote on a recent

United Nations resolution on the Falklands, or the European Community's ban on the import of seal products. These, however, pale when set against the host of bilateral and international questions on which we not only agree, but work together in close collaboration. At all levels, contacts and communications are easy, informal, and friendly. As High Commissioner to Great Britain, I could not ask for more congenial surroundings or circumstances in which to promote Canada's policies and interests.

The High Commission in London does play a pivotal role in strengthening the reality of Canada in Britain as well as representing Canada in a number of multilateral organisations based in Britain. We daily strive to raise the Canadian profile and improve awareness and understanding of Canada through commercial, cultural, academic, and media promotional activities as well as maximising the benefits of the visits of cabinet ministers. The fostering of people-to-people contacts and exchanges generally cannot be underestimated.

Through ministerial presentations, seminars and advertising, we work to improve the flow of productive British investment capital and technology to Canada as well as maintaining our contacts with key members of the British business, banking, and investment communities.

In supporting Canadian economic policy, we make representations and report on Canada-EEC trade relations and irritants, economic developments and the preparation for the next round of the MTN. A further supporting economic initiative is to take full advantage of new Canadian immigration regulations and levels to increase the number of quality immigrants from the United Kingdom, particularly in the entrepreneur and investment categories. The High Commission also provides the fullest possible range of services to Canadian exporters in identifying and exploiting market opportunities in the U.K.

To promote Canada's political and security interests, as well as emphasizing our distinctive role in international affairs, we pursue an active dialogue with the British Government. This includes NATO affairs, East-West relations, arms control and disarmament, European integration and Third World regional conflicts.

We keep our government informed on developments in British foreign policy, and external relations, in areas of importance to Canada and where Britain continues to play an influential role, especially Europe, South Africa, and the Caribbean.

In London, we maintain and develop bilateral relations in the fields of defence, intelligence, national security and law enforcement. We support provincial initiatives in the fields of trade, investment, tourism, and public affairs, and, of course, maintain close contact with the Agents General of the six provinces represented in London.

We also try to provide a full range of consular, passport, and information services to the thousands of Canadians who visit the U.K. each year.

The reality of international diplomacy in a major world capital like London is, of course, somewhat different than the traditional "striped pants" perception that many people harbour.

When Mrs. Thatcher came to power in 1979, she instilled a resurgent U.K. nationalism that sought to pursue aggressively U.K. foreign and economic interests and to alter fundamentally the structure of British social and economic relations. Thus in foreign policy, British leaders have focussed on its big partnerships, namely the United States and the European Economic Community. You are familiar with efforts to improve relations with the United States on security, foreign policy, and economic issues over the last several years as represented by the recent British-U.S. accord on SDI. Similarly, the U.K. demanded renegotiation of certain of its obligations to the EEC, a process that created difficulties with its EEC partners in the short term but that reflected the U.K.'s fundamental commitment to Europe and the Community. It would no longer try to go it alone.

While the Commonwealth connection is certainly not dismissed, it no longer holds the primacy that it once did in U.K. thinking. Canada is an important member of the North Atlantic Triangle but we can no longer rely on shared heritage and cultural roots to define our relationship. We must respond to Britain's changing focus and shape our own goals in that context.

When we look at the challenge of our economic relations with the U.K., we realise that Britain faces similar public policy problems as those in most industrialised countries. Future growth and trade will take place for the most part in those sectors that provide a healthy dynamism. It is here that Canada should look for opportunities to increase business co-operation—through investment, joint projects, technology transfers, licensing, and trade.

Furthermore, we must realise that, in a mature industrial and service-based economy, one cannot look at trade, investment, technology transfers as discrete elements. They are so thoroughly interlinked that rarely can one do without the other.

When I spoke a moment ago of the resurgent British nationalism, nowhere is this more apparent than in the goals of British content, whether in the North Sea oil infrastructure or in telecommunications. This, again, underlines the importance of joint ventures and co-operation.

Despite some recent decline, British high-technology industries are providing much of the drive in the manufacturing sector. In southern England and parts of Scotland where the industry is concentrated, they are enjoying a buoyant prosperity. This sector has some notable characteristics similar to our own that provide obvious opportunities to co-operate. In fact, there are more than 100 agreements between Canadian and U.K. companies in the high-technology field covering research, licensing, investment and joint projects.

There are many other important areas such as energy, nuclear technology, chemicals, pharmaceuticals, instrument engineering, textiles, refineries, petrochemicals, automobiles and aerospace that provide opportunities for Canadian investment and co-operation.

In particular, the service sector or what we call the "London Connection" is an area of British life where there could be a greater Canadian connection. Britain's former colonial connections and the related explosion in British trade and financing activity worldwide led to an unequalled infrastructure to support international commerce. Its infrastructure has expanded and London is now the most sophisticated and influential centre for world business.

In London, we have a highly efficient business infrastructure, an internationally oriented commercial, banking and trading community with a vast network of connections. The "London Connection" is unfortunately little used by Canadian businesses that are largely unaware of the ways in which this long-standing British experience and sophistication in difficult developing country markets can be used to assist Canadian firms in winning business in Asia, the Middle East, Latin America, and Africa.

The High Commission has a Third World programme to help Canadians obtain business in the Middle East, Africa and Asia. Our trade officers in London have excellent contacts in the City and with consultant firms, as well as Third World experience.

It should also be noted that the changing environment in London for financial capital-market operations does pose a challenge for Canadian financial service firms. Anxious to maintain London's competitive edge, the U.K. Government has launched a major reform of financial and capital-market structures. It is aimed simultaneously at freeing up ownership restrictions for both national and foreign investors, improved capital resources for the securities industry, and regulating reform of securities and bond markets and banking supervision. The U.K. Government, having opened up its banking securities and investment sectors to foreign ownership, is now looking to its OECD partners including Canada to reciprocate.

Let me return for a moment to our more traditional economic ties with the U.K. as exemplified by our trade. Despite the loss of Commonwealth preferential tariffs and the orientation of the U.K. towards the EEC, Canadian exports have held up very well. While our market share has not grown, Britain continues to provide an excellent export base for a wide range of our traditional exports and is our second-best market for fully manufactured foods.

In Britain, Canadian firms should, and usually do, assess the prospects for moulding our own corporate strategy with the wide range of opportunities for collaboration with U.K. firms. What we are seeing is a rebirth of interest and understanding of the U.K. market as it is today, not fettered by out-of-date perceptions. The question is how Canadian firms can participate more effectively than heretofore in the modern U.K. market and what sectors offer the greatest opportunities.

While we can reflect and occasionally fret about the challenge of our changing political and economic relationship with Britain, there can be no denying the basic underlying community of interests and initiatives.

As I indicated at the outset, Sir Derek Day and I are very much committed to enhancing the relationship we fear is slipping into some degree of benign neglect. Notwithstanding the invaluable basic community of interest, times clearly have changed. As Britain and Canada must, of course, look far beyond our bilateral ties, the nature of our relationship has been inevitably diluted. As the ties of sentiment and family are becoming weaker, our younger generations in particular know less about each others' countries and what we have contributed to each other.

As a Canadian ever mindful of the enormous and pervasive influence of our friendly neighbours to the south, I strongly believe that we must work to strengthen our other traditional relationships.

In the Canada-British context, Derek Day and I are committed to encouraging the establishment of a form of U.K.-Canada association or foundation that would provide a focus for the relationship and promote it in practical ways. Such a body would not seek to replace but to support other existing organisations. Its purpose would be to inform, educate, and stimulate, to sponsor interchange, particularly among the younger generation, which might not otherwise take place. It would provide a vehicle through which those concerned with the relationship could make an active contribution.

Your suggestions to either Sir Derek or to me, or both, would indeed be most welcome.

It has been wonderful to have this opportunity of visiting with you, and to everyone my warmest best wishes for a prosperous and fulfilling 1986.

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The appreciation of the audience was expressed by Mrs. Jean Casselman-Wadds, a Director of The Club and a former High Commissioner for Canada to Great Britain.

Dr. Marc Garneau, O.C.
First Canadian Astronaut

SPACE MISSION 41-G

January 16, 1986

The President
Harry T. Seymour, Chairman

Mr. Seymour

Distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today Marc Garneau, Canada's first astronaut in space.

The March, 1985 issue of *Saturday Night* described the October, 1984, launch of the Challenger shuttle as follows:

"The countdown had gone on all night and yet the moment came as a surprise—a gush of white smoke and steam that billowed up around the launch pad like a volcanic eruption.

"There was the brightest white light. . .There was the awesome fact that the orbiter was lifting. But mostly there was the noise, a furious sound felt in the chest more than heard. It grew stronger, to the point that any increase would have been painful, but no final increase came. It took four seconds for the three main engines and the two solid rocket boosters to reach ninety per cent of full power. In sixty seconds, Marc Garneau was fifteen miles high."

Canada's space programme began on September 29, 1962, when Alouette I was blasted into orbit from an American test range. Its success in recording data on the upper atmosphere led to four more satellites—designed, developed and built by Canadians, but launched by Americans.

In 1971, the two countries officially joined forces in the communications-technology satellite programme. In 1972, with the launch of Anik A-1, Canada became the first nation to have a domestic communications satellite in orbit.

Anik-2 and Anik-3 followed and, in 1982, the highly sophisticated Anik C-3 was launched on the first commercial flight of the American space shuttle. Since then, two more Anik satellites have been launched from the cargo bays of shuttles Discovery and Challenger, employing the Canadarm developed by Spar Aerospace, whose president is with us today, to set them in orbit.

Despite the success of Canadarm, most Canadians gave little thought to the Canadian space programme, until the possibility arose of a Canadian astronaut. In 1982, on the occasion of the twenthieth anniversary of the Alouette launching, NASA extended a public invitation for Canada to supply the shuttle programme with either mission specialists or payload specialists. Ottawa accepted the invitation the following year and the Canadian astronaut programme was born.

In December, 1983, the then Minister of State for Science and Technology, Donald Johnston, announced that, from the 4,300 applicants who had answered a newspaper advertisement in July, six had been chosen for the programme. Working to a very tight schedule so as to accommodate the planned October launch date, Karl Doetsch, director of the Canadian astronaut programme, announced the National Research Council's choice of prime and backup crew members on March 13, 1984: Marc Garneau, prime, and Bob Thirsk, back-up.

Born in Quebec City, Marc Garneau earned a bachelor's degree in engineering physics from the Royal Military College of Kingston in 1970 and a doctorate in electrical engineering from the Imperial College of Science and Technology, London, England, in 1973.

While an instructor in naval weapons systems at the Canadian Forces Fleet School in Halifax in 1976-77, our guest designed a simulator for use in training weapons officers in the use of missile systems aboard Tribal Class destroyers. Following appointments of increasing responsibility in both Ottawa and Halifax, Marc Garneau was promoted to Commander and transferred to Ottawa to become design authority for all naval communications and electronic warfare equipment and systems in 1983.

He is married to the former Jacqueline Brown of London, England. The Garneaus live in Ottawa with their ten-year-old twins, Yves and Simone.

In response to his experience in space, Garneau said:

"The most moving thing is to look down at your own planet. . .to be able to see entire subcontinents and seas is incredibly beautiful, very moving."

Looking to the future, our guest was quoted recently as saying:

"Canada should charter its own space lab mission as West Germany did, since there are many experiments that you can perform in the space module, because of its size, that you cannot perform when the module is not there."

I am certain that our guest would be a ready and willing volunteer if Ottawa were to make such a decision.

Ladies and gentlemen, it gives me great pleasure to welcome as our guest speaker today Marc Garneau, Canadian astronaut, who will first of all address us on the topic "Space Mission 41-G" and then participate in a question-and-answer period.

Marc Garneau

Mr. President, head table guests, ladies and gentlemen, young people in the audience:

Thank you very much for having me here today. I always look forward to the opportunity to speak to Canadians about the honour I felt when I was chosen to fly in space in October of 1984 aboard the shuttle Challenger. I look forward to showing you a film that describes a little bit the sort of experience one undergoes when one has the opportunity to fly aboard a shuttle. It's a sort of home movie, taken by the different crew members, which pretty well shows you how a typical day goes by aboard the shuttle. Now, I know you've all seen small clips on television, which show you perhaps 15 or 30 seconds of what astronauts are doing when they're up there, but this is a longer film. I think by the time you've seen it, it will have answered some of the questions you may have about what it's like to go up in space aboard a shuttle and what sort of things you do while up there.

Before I show that film, I want to speak very briefly about Canada's space program. Mr. Seymour has mentioned a number of 'firsts' that illustrate how Canada has been involved at the forefront of developments in space, particularly in the communications-technology area—communications satellites. But there are also a number of other important areas that deal with remote sensing, search and rescue, and space technology in general. We also have a very eminent group of scientists in our country whose aim is to try to learn more about our universe, and a lot of that can be done by sending sensors up into space and looking down towards our planet. Now, I don't know whether it was by coincidence or just good planning that I was invited to speak today, but, at this time, Canada's space program is at a very important crossroad. In fact, this is probably *the* crucial month in our history. The Canadian Government is reviewing a document called *The Space Plan*, a sort of White Paper, which looks at the direction Canada may take during the next fifteen years with regards to space.

We have been involved with space now for about thirty years and in a very significant manner. We've had to become involved with space because of the need to bring us together through communications satellites; because of the need to be able to look at our resources through remote-sensing satellites; because of the vastness of our country, where search-and-rescue can be far more efficient by using satellites. Now we're looking into the future and we're wondering what we are going to do as far as space is concerned.

This Space Plan basically proposes three very major projects. The first has to do with the space station, a very large structure that will be placed into orbit in the next decade, probably about 1993-94. It's a U.S. space station but, in actual fact, there will be significant contributions by other countries. Canada may be one of those countries. Japan, Canada, the European Space Agency, which involves about 13 countries, and the United States, are going to put together this space station.

Canada wants to build something called "the integrated servicing and test facility," an element of that space station. And, if you like, it can be compared to a garage—a place where satellites or other free fliers are brought to be refurbished or to be refuelled, simply to check them out or perhaps to replace some of the modules, to update them, that sort of thing. Canada wants to build this integrated servicing and test facility and has proposed that to the other partners.

First of all, the Government has to decide whether we will go ahead and fund this development. Secondly, we also have to persuade our partners in the U.S. and in the other countries that we should be the ones to build the integrated servicing and test facility—and, believe me, the competition will be stiff. I think we probably, in choosing that particular part of the space station, hit upon a very very important part because of the fact that it involves some key technology, and particularly in the area of robotics and artificial intelligence. And, because the space station will be a focus for certain technologies, a lot of countries—and particularly a lot of private companies—want to be the ones to be involved significantly with areas such as robotics and artificial intelligence. So, we're not the only ones who want to build this integrated and servicing test facility because of its large involvement with robotics; the United States and other countries want to get involved with that part of it. So we have to persuade our partners that we should be the ones to do it.

Another important element in the space plan is "Radarsat," a remote-sensing satellite that uses a number of sensors but primarily a radar. We've been involved in remote sensing for a number of years; these are satellites that look down at the earth and can pick up a lot of detail from their sensors. We have developed considerable capabilities processing the signals that they send down, but we've never had our own remote-sensing satellite, and Radarsat will be the first Canadian satellite in this area.

We shall be sending that information down, and it will tell us a great deal about a number of things. It will tell us mostly about the sort of conditions that exist up in the Arctic that we want to develop—the ice-flow conditions, which will be important from the point of view of navigation. It will also provide us with information that may be of use from a surveillance point of view, although that isn't a primary role; with information about our forests; perhaps some of our other natural resources; information useful to farmers and people who are involved with the resources of our country. So that's another major project that Canada will be considering.

The other major project is called "Mobile Satellite," which is in the area of communications. Mobile Satellite means a satellite that can actually receive a signal from a remote user anywhere in our country—perhaps out at sea or in the bush somewhere in the North—and that person with a small transmitter can actually make use of a satellite to send a message out and to communicate with somebody else who is perhaps in a major city. This is a key area for development in communications-satellite technology and this is the third major project that Canada is looking at for the 1990s.

So there are three big projects being considered for Canadian involvement in space. They are all highly competitive. We're receiving a lot of competition from several other countries now who are getting involved. It's not just the United States and the Soviet Union, but other countries such as Japan, China, India, some of the individual European countries, are all getting involved with space. It's no longer a preserve where we occupy a very privileged position. We now have to compete to maintain the status we have created for ourselves over the past twenty-five years.

Two other points under discussion as well in this space plan are the Canadian Astronaut Programme and whether that will continue. I think, and I certainly hope, that the program will continue, but it is under review.

I happen to be a person who believes that it is useful to have human beings go up in space to do a variety of tasks in a variety of different areas. In fact, I think we're superior in a number of areas to machines, but that's a speech in itself and I won't get involved with that today. But it is something that we have to justify, because some people do believe that it is, in some cases, more efficient to get the work done by machines.

And, finally, the last thing I think is under discussion as well is this question of perhaps bringing all the different elements of space involvement in this country together. There are various Government departments all involved in one way or another with space; whether it's the Department of Communications with communications satellites or the National Research Council, where I work, which is involved with space science and astronauts, or Energy, Mines and Resources, with remote sensing—and I mentioned Radarsat. Some people suggest that we should all be brought together and form the equivalent of the American National Aeronautics and Space Administration (NASA) organization—a sort of Canadian national space agency. So I think that is also something that is going to be discussed and may come about in the years ahead.

A lot of things are happening and are being discussed at this moment, with respect to space. I think that, if we don't continue our involvement with space, we're going to be left behind. Economically, this is one of the important and perhaps—maybe 50 years from now—the most important high technology for any country and I think it's absolutely vital that we keep the momentum we have built up so far in this particular area.

I won't do any more politics now and I'll switch to the real reason I came here, which was to tell you about Mission 41-G. I flew aboard the Challenger, in October, 1984, and spent eight days aboard what we call an orbiter—which is what most people call the shuttle. It is the flying part of the shuttle system. I went up into space with six other people, which at that time was the largest crew ever to go up into space. There were five men and two women. The women were Kathy Sullivan, the first American woman to walk in space—that is, go outside the shuttle and spend a few hours out in space. The other woman was Sally Ride, who was the first American woman astronaut ever to go into space. In all, we spent 8¼ days in space and went around the earth one hundred and thirty-two and one half times. Now, if you're good at mathematics, you'll realize that that works out to sixteen times every day, or once every ninety minutes. So, in that ninety-minute period basically, you have about fifty minutes of daylight and about forty minutes of darkness when you are behind the earth. Every day, because you go around sixteen times, you'll have sixteen sunrises and sixteen sunsets. You are travelling at about 28,000 kilometres per hour or 17,000 miles per hour to get around the world in ninety minutes. And, with 132½ orbits, that works out to about 3½ million miles or 5½ million kilometres, during the eight days we were up there.

Now my job, as a payload specialist, was to carry out a number of experiments during my mission. These were all experiments put forward by Canadians, which had to do with various different subjects, but the important point about it is that, as a Canadian payload specialist, my job was to go up there and to do experiments that had been put forward by people from universities or industry or government departments within Canada. And this is, in fact, what's going to happen to the next Canadian astronaut who goes up, Steve McLean; he'll be doing a series of seven experiments, once again put forward by Canadians. In fact, we are now developing the experiments for the third Canadian to go in space, which will come not too long probably after Steve goes into space. And there we'll concentrate on the medical side—what happens to the human body when a person is up in space. Well, if we could at this point turn out the lights and roll the film. . .

The appreciation of the audience was expressed by MGen. Bruce J. Legge, a distinguished Past President of The Club.

The Hon. David S.H. MacDonald, P.C.

Canadian Emergency Co-ordinator/
African Famine

CANADA'S SPECIAL ROLE AT THE UNITED NATIONS

January 23, 1986

The President
Harry T. Seymour, Chairman

Mr. Seymour

Distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today the Hon. David Samuel Horne MacDonald, P.C., Canadian Emergency Co-ordinator/African Famine.

In December, 1979, insiders described our guest, who was then Secretary of State and Minister of Communications, as:

"One of the three most powerful ministers in the (Joe) Clark cabinet. Not only does he sit in the inner cabinet, but he is chairman of the cabinet committee on social and native affairs, which parcels out financing for special welfare programmes among various departments. As well, he is likely to become (if he wants it and can decide which of his other duties can be shoved over to someone else), the new superminister in charge of social development, once that post is created in the new year. That post would bring him much of the responsibility for revamping long-term government priorities in the fields of social welfare, culture, and pensions."

Four years after his ordination as a minister of the United Church of Canada, David MacDonald was elected to the House of Commons for the riding of Egmont, Prince Edward Island, in the general election of 1965. He was subsequently re-elected in the general elections of 1968, 1972, 1974 and 1979.

Throughout his fifteen years as a Member of Parliament, he was one of Ottawa's most popular, active, and outspoken MPs. His outspokenness came to the fore in 1976 when Prime Minister Joe Clark briefly banished our guest from the shadow cabinet for opposing publicly the party's immigration policy.

Shortly after his defeat in the general election of 1980, Michael Kirby, president, appointed our guest to The Institure for Research on Public Policy as Fellow in Residence. Always active in human rights and cultural issues, David MacDonald focussed his efforts, at the institute, on developing recommendations regarding the direction of Canadian public policy in communications and culture.

In June, 1981, our guest was named president of an independent agency, The Futures Secretariat, whose task it was to make Canadians more aware of the Third World. Conceived by the then-External Affairs Minister, the Hon. Marc McGuigan, the Secretariat's mandate was not clearly defined and its financing was not guaranteed at the outset, with the result that it became extinct within a year.

To further recognize our guest's special talents, the Canadian Conference of Catholic Bishops appointed him as Director of Logistics for the Papal Visit in September, 1984.

After a short respite of two months, David MacDonald was appointed to his current position, that of Canadian Emergency Co-ordinator/African Famine, in November, 1984.

He speaks to us today in place of Ambassador Stephen Lewis, who is attending an emergency meeting of the General Assembly called to discuss the African question.

Ladies and gentlemen, it gives me great pleasure to introduce the Hon. David MacDonald, an outstanding designated hitter by any measure, who will address us on the topic "Canada's Special Role at the United Nations."

David MacDonald

Mr. President, distinguished head table guests, ladies and gentlemen: Listening to Harry give that very detailed introduction, I was thinking to myself that even my mother couldn't have done it better. It was like seeing my life flash in front of my eyes—the good, the bad, the exciting possibilities, the disastrous disappointments and some of the various way-stations in between.

However, as the President has already indicated in his remarks, all of my various religious and political activities have never before given me the benefit of enjoying a luncheon with The Empire Club. It took the intervention of the Secretary General of the United Nations to achieve *that*.

I was busy with other responsibilities in the Eastern Townships of Quebec, when I was called late Monday. I simply couldn't say no to an opportunity to participate in this very historic institution, both in this city and in this country.

I have had relatively little opportunity to become acquainted with The Empire Club and its traditions. I do know that it has been around for more than eighty years; that in most public libraries you will see the bound volumes of speeches given over the years and you will soon see the country, and other parts of the world as well, reflected in the various addresses. I was reading the guest book listing your speakers of the past few weeks, and I wondered whether this was a kind of political reunion, with Ontario Lieutenant Governor Lincoln Alexander, Canadian High Commissioner to Britain Roy McMurtry, and Solicitor General Perrin Beatty, and others who have joined you at this table and addressed you.

It's been suggested that I'm going to deliver our Ambassador's message today. To protect both him and me, I should make it very clear that, while I'm certainly going to touch on some of the same themes as Stephen Lewis would have dealt with here today, I want to take total ownership for what I'm going to say for two reasons. First of all, because there may be some problem in Stephen fully accepting what I would say about the United Nations and Canada's special role, and secondly since I'm going to talk about him specifically. Therefore, I wouldn't want anyone to believe that, somehow or other, he had put these words in my mouth, because he then might have other difficulties to deal with when he next comes to Toronto.

I have known not only Stephen Lewis, but also his family for many years; I should apologise to at least two people in the audience today, whom I don't know personally, but who were on the elevator with me about an hour ago. We were all looking for this room, and I heard one gentleman say to the other: "Now we *must* get there, because we really want to hear what David Lewis has to say." I asked my colleague who was with me, "Should I break the news to them now, or simply wait until I get there?" However, now they know, I'm not sure whether they are still here, but I'll go ahead anyway.

The topic that was selected and indeed the individual who had been chosen to present it, if I can put it this way, absolutely crucial to an understanding of ourselves and where we are going in the international community today. It's only on occasions like this, when people have a chance to reflect, even momentarily, on our overall relationships apart from the immediate issues and crisis, that perhaps we can get a bit of a sense of the moving and shaping of history that goes on around us.

I will let you in on a little secret that wasn't in the introduction. Ever since my student days I have been fascinated by history. Not only by history that has already taken place, but the history that is still to be made, or, more specifically, the history that we ourselves are participating in, not just in some passive sense but in an active sense.

There is no place where we can see the history of the whole human community being more critically forged than in the context of the United Nations. I'm delighted that George Ignatieff is here today, because he has been an active part of that history. He has not only seen it close up, but he has also participated in it on our behalf. He has been a part of its changing and shaping.

A few months ago in this city, we marked the 40th anniversary of the United Nations. We listened to people like the Honourable Paul Martin and others remind us again of the context in which we are situated, because so much as occured in our lifetime. It is only in this century that the phenomenon of the United Nations could even possibly exist. I won't get into all the permutations and combinations of why that is so, but it is quite self-evidently true. When we complain, as we often do, about things that happen within, and because of, the United Nations, let us remember that it is a unique experiment. If you look at it in its totality, it is part of the League of Nations-United Nations experiment and it is a much more important result than those of most of the scientific or technological experiments to which we give a great deal of meaning.

I understand your speaker last week was astronaut Marc Garneau, one of our living Canadian heroes and rightly earned. All of what has happened within the realm of space fascinates us, excites us and makes us realize, when Neil Armstrong sets foot on the surface of the moon, that we are watching history being made. But the history that is being made, even at this hour, within the United Nations will have the most profound repercussions, both in our own lifetime and the lifetime of those who come after. Why do I say this? It is important to realize that where Canada is placed in all of this is really at a number of very critical points.

One of the things that fascinated me two or three years ago, when I was doing research on the issue of the evolution of contemporary human rights understanding, was that famous meeting that took place between (President Franklin) Roosevelt and (Prime Minister Winston) Churchill, when they met off Argentia, Newfoundland, and came up with the Four Freedoms, and the sense in which they created the basic agenda for what the United Nations was to become.

That was, in its own way, history, and it happened literally within the kind of ambiance, the milieu, of what was to become Canada. I noticed that (former Premier Joseph) Joey Smallwood once spoke here, and Joey will never let anyone forget that Newfoundland's participation in Canada is a relatively recent phenomenon. That, in itself, is a part of history. But from that transition point, we have seen, not just an institution, but a whole new set of political phenomena develop.

When people talk about the United Nations, by and large what they are talking about, is what they see on television occasionally, either in the General Assembly or the Security Council, or in some interaction between political leaders within the U.N. system. I suppose it's not an unfair analogy to say that that's somewhat similar to saying that the Government of Canada is what one sees every afternoon in Question period in the House of Commons. If I can say it this way, most of us would be appalled if we thought that Question Period was all there was to the Government of Canada, however one views its several responsibilities and activities. Because it is important to look, as I used to say when I tried to explain the House of Commons and all of its activities, Question Period and the House of Commons itself, is only the tip of the iceberg of a much more complicated political/social/economic/cultural process, as is the United Nations.

There are such tremendous stories that can be told now after some 40 years of the multitudinous numbers of agencies, big and small, that every day act on our behalf to develop the kind of critical links that reach across political and other borders to allow somehow, not always very effectively or efficiently, the human community to function. Part of the problem for us in the United Nations is there are no very good road maps. There are no good precedents.

I believe we have a number of lawyers here today as members of The Empire Club. For lawyers, it's wonderful to have precedents when you are arguing a case or trying to develop a particular argument. But what possible precedent exists for us in trying to imagine an international community that is going to have to function in a quite dramatically different way, if we are going to survive. And *survive* is the critical issue. It certainly was the critical issue with respect to the basic founding of the U.N.

I wasn't very old at the time of the San Francisco meetings and I can't claim to have total recall of all that took place at the end of the Second World War, but I *do* know from listening to others and reading the documents that the founding of the United Nations took place in a kind of intense desire to see no more conflict of the type and scale that so terribly devastated Europe and parts of Asia, and had its impact around the world.

In those early years, there was an incredible sense of idealism about what could be achieved in the United Nations. I say in the earlier years, because, by the '50s, there was the increasing skeptimism and pessimism that as a peace-making body, as a peace-keeping body and institution, it would absolutely work. But still, the experiment when on through the '50s and into the '60s, and, in the centre of that, there was a critical role for Canada. I suppose it makes the point most clearly that Lester Pearson, first as External Affairs Minister and subsequently as Prime Minister, was so preeminently identified with the peace-making and the peace-keeping activities that were heart and soul of the United Nations in its founding.

As the '60s came and went, our sense of frustration and despair mounted. Increasingly we have seen the kind of unilateral attempts made—and sometimes these are regional unilateral attempts—to find other ways of preventing or isolating or frustrating or in some way controlling the conflict, and it has not been, we will have to admit, very successful. It was only indeed in the late '70s when in fact the United Nations could call a first-ever Special Session on Disarmament, even though for almost thirty years the world was going on willy-nilly, expanding its armouries at a killing speed.

Now, that has been one side, one aspect of recent U.N. history. But Canada, along the way, has gained this reputation for being in the forefront of trying to be the reconciler, the peace-maker, the peace-keeper. We have participated in so many of the peace-making attempts and initiatives of the U.N. Perhaps more than any other country in the area of peace-keeping, we have that kind of special niche. We have lived for quite some time on that reputation, but, in the '70s, it has not been a reputation that we have felt all that proud of, or indeed, have been all that anxious to identify as a kind of major aspect of our foreign policy. When in the late '60s, Prime Minister Pierre Trudeau introduced his foreign policy for Canadians, there really was almost a kind of arm's-length relationship about whether we wanted to carry on with that kind of relationship. We talked about other issues that seemed for us, in terms of our foreign policy, more important.

Yet, beginning in the '60s, and increasingly in the '70s and I think profoundly in the '80s, there is developing a role within the U.N. that is preeminently Canadian. Here, I want to be as specific as I can, because it is very important that we are all aware of it.

Just the other day when I received the latest report from the U.N. Emergency Coordinator in Africa, Maurice Strong, and Brad Morris, I looked at the tables of what had happened during the last year of response to the famine in Africa. I looked in particular at the table of aid that had been sent, food aid. I was surprised to discover that, as a country, Canada was second only to the United States in the total volume of contributions to the African crisis. Second only to the most powerful country in the world. I was not really aware of that, and even though I am day by day, and hour by hour involved at the heart of the whole Canadian response effort, I'm sure most Canadians were not aware.

I've been thinking about that and reflecting on it in terms of what its significance is to us as a country within the continuing community of nations, and I am more and more convinced that it is not insignificant. It is not untypical of what, in fact, has developed quietly, without fanfare and in-

MAY 27, 1985
The Hon. Barbara J. McDougall with Harry Seymour and David Tafler, Publisher, Financial Times of Canada

SEPTEMBER 16, 1985
James Pitblado, Chairman, Dominion Securities Pitfield Limited and President, The Canadian Club of Toronto; Ann Landers; Harry Seymour, President, Dominion Securities Pitfield Investment Management Limited and President, The Empire Club of Canada

SEPTEMBER 26, 1985
Galen Weston, Chairman and President, George Weston Limited with James Peterson, Chairman, Cambridge Acceptance Corporation Limited and The Hon. David Peterson

OCTOBER 3, 1985
Donald Blevins, Consul General for the United States; Dr. Allan Lansing; Dr. Allan Dyer, Deputy Minister of Health, Province of Ontario

OCTOBER 10, 1985
Pierre Lortie with Harry Seymour

OCTOBER 17, 1985
Reginald Stackhouse, M.P. for the Riding of Scarborough West and a Past President of The Club; George Connell; Nona Macdonald, First Vice-President of The Club; William Broadhurst, Senior Partner, Price Waterhouse

OCTOBER 24, 1985
Harry Seymour; Charles (Bud) Hoffman, President, Business Planning Associates Inc. and a Director of The Club; The Hon. Perrin Beatty

OCTOBER 28, 1985
Paul Volcker with Harry Seymour

OCTOBER 31, 1985
Roy McGarry, Publisher, The Globe and Mail; Sondra Gotlieb

NOVEMBER 7, 1985
John White, Chairman, Ontario Heritage Foundation with Pierre Berton

NOVEMBER 12, 1985
James Pitblado; The Rt. Hon. Jeanne Sauvé; Harry Seymour

NOVEMBER 12, 1985
The Rt. Hon. Roland Michener, a former Governor General of Canada and a Past President of The Club; The Rt. Hon. Jeanne Sauvé

NOVEMBER 14, 1985
John Redfern

NOVEMBER 21, 1985
Catherine Charlton, President, Charlton Associates and Immediate Past President of The Club; The Hon. Mr. Justice Joseph H. Potts, a Past President of The Club; Adrienne Clarkson

NOVEMBER 28, 1985
William Karn, a Past President of The Club; Douglas Wright

DECEMBER 5, 1985
Rainer Gut

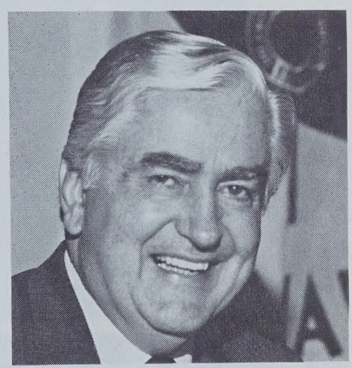
DECEMBER 12, 1985
The Hon. Pauline McGibbon, a former Lieutenant Governor of Ontario; The Hon. Lincoln Alexander, Lieutenant Governor of Ontario and Honorary Vice-President of The Club; Margaret Scrivener, a Director of The Club.

JANUARY 9, 1986
The Hon. Roy McMurtry; Jean Casselman-Wadds, a former High Commissioner to the United Kingdom and a Director of The Club

JANUARY 16, 1986
Dr. Marc Garneau at the controls with from left to right Whitney Westwood and Jeanette, Harry, Sasha and Lillian Seymour

JANUARY 23, 1986
The Hon. David MacDonald

JANUARY 30, 1986
Patrick Reid

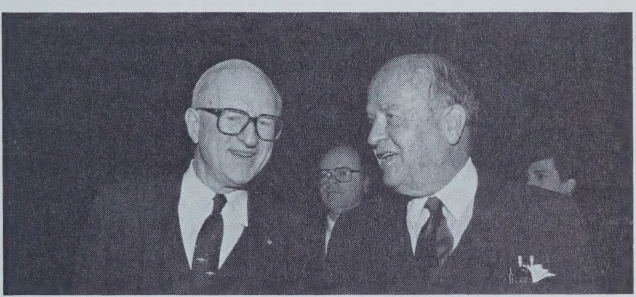


FEBRUARY 6, 1986
Harry Seymour; Dennis Madden, a Director of The Club; Marlene Smith, a member of the Board of Governors, Shaw Festival; Allan Slaight

FEBRUARY 13, 1986
Marie-Josée Drouin

FEBRUARY 20, 1986
Mel Hawkrigg, President, Trilon Financial Corporation; Stanley Beck; Harry Seymour; Bredin Stapells, Partner, Stapells and Sewell and a Past President of The Club

FEBRUARY 27, 1986
The Hon. James Kelleher; Harry Seymour; Oswald Murray, Dean, The Consular Corps and Consul General for Jamaica

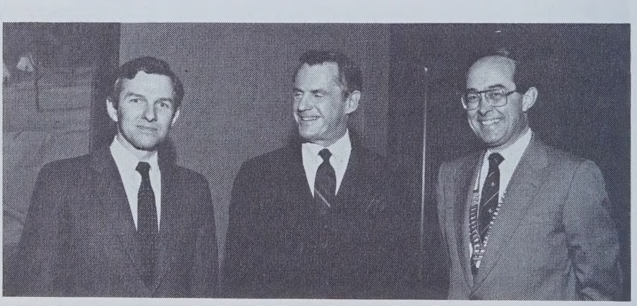


MARCH 3, 1986
Russell Merifield, Secretary-Treasurer, The Canadian Club of Toronto with Peter Grace

MARCH 6, 1986
The Hon. Michael Wilson with two former Ministers of Finance; The Hon. Donald Fleming to his right; The Hon. Walter Gordon to his left

MARCH 13, 1986
Norman Burrough; Harry Seymour; John Herrick, Chairman, General Mills Canada Inc. and a Director of The Club

MARCH 20, 1986
Larry Grossman with long time Cabinet colleague Claude Bennett, M.P.P. for the Riding of Ottawa South



MARCH 27, 1986
Thomas Corcoran, Vice-President, IBM Canada Limited; Buck Rodgers; Harry Seymour

APRIL 3, 1986

Harry Seymour; Bob Franklin, President of Ontario Hydro; Jack MacLeod; Jean-Pierre Scheidegger, President and Chief Executive Officer, UBS (Canada) and a Director of The Club

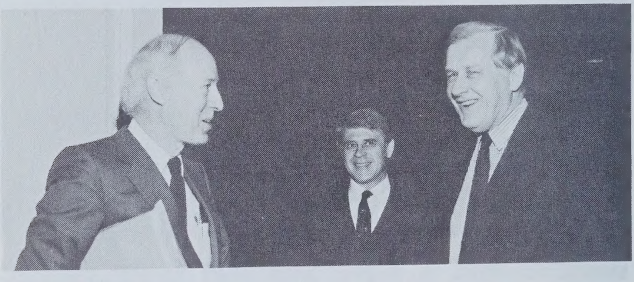
APRIL 10, 1986

Leo Melamed with Head Table guest Charles Loewen, President, Loewen Ondaatje McCutcheon Company Limited

APRIL 17, 1986

David and Mary Culver with Angus Scott, a Director of The Club

APRIL 18, 1986
The Hon. Lincoln Alexander, Lieutenant Governor of Ontario and Honorary Vice-President of The Club; Harry Seymour; The Rt. Hon. Roland Michener, a former Governor General of Canada and Honorary Chairman of The Club; MGen. Bruce Legge, Partner, Legge and Legge and a Past President of both The Empire Club and The Empire Club Foundation



APRIL 24, 1986
Carlyle Dunbar, Associate Editor, The Financial Post and a Director of The Club; Brian Sparrow, British Consul General; Sir Derek Day

APRIL 24, 1986 (President's Report)
Anne Lato – Administrator

deed without notice—that Canada's role as a peace-maker within the U.N. system has gradually been, if not outdistanced, at least enhanced and enlarged. I believe it was Pope Paul VI, when he spoke to the U.N., who said, "The new name for peace is development." It's a catch phrase; development is the new name for peace. Some people, many people, have used it as a kind of easy slogan, but it may say something even more profound about what we are talking about when we discuss vital issues of security.

Ever since the Korean conflict, when there has been a gradual decrease, and—one has to admit it—a decrease in our kind of military relationships, responsibilities, there has been an uneasy feeling in this country. Reflected by many political leaders and others, there is a feeling that Canada has not been playing its fair share in maintaining the kind of security arrangements we have with close neighbours such as the United States, and with our allies in NATO and others. There has been, not a major debate, but sometimes issues and questions raised, "How much is enough?" in terms of our defense and security commitments.

If we look at our defense budget today, we will see that, while it has not grown rapidly, and in some cases has not even grown relatively to other allied countries, it is a significant amount of money. Much, much larger than we spend for any other form of foreign or international activity, and we regard that as our basic investment in security.

But, I believe, it is clearly reflected within the U.N. system, that our search for peace is not just, or even primarily, through systems of defense and armaments, but through a particular kind of leadership. If so, the kind of active intervention that we have played, not just in Africa, but in a great number of developing countries throughout the world.

Many months ago, a group of Canadian artists came together to record their own African relief song, "Tears Are Not Enough." There was a line in it that has stuck with me, that says even more than the title or other elements of the song. Do you remember the line? It goes something like this.

(I won't try to sing it, so don't worry.) It says, "We can bridge the distance." If there is one thing that seems to me to speak evocatively of what Canadians can do best and well, it is that role of bridge-builder. I have seen it close up. I have seen it at the level of government leadership and government representatives, in a series of countries in Africa that have been caught in the crisis of these past few years. I have seen it through voluntary agencies, in which in their own way, men and women from various parts of this country, on our behalf, worked with the people of the countries most severely affected. There is no question in my mind that this bridge-building, extending relationships, is crucial to the kind of world in which we live.

There is an incredibly cruel irony to our contemporary experience. Never have we had so many instruments of communication and mass communication that we can witness, even here in this room. Never has there been such a tendency for people to withdraw, to polarize, to focus their own positions in a way that reduces communication, reduces contact, reduces collaboration, creates misunderstanding, creates anxiety, creates division. The role of bridge-builder is one not to be underestimated in the world in which we live in the late 1980s.

I have to make a small confession here, Mr. President, even though I am doing a stand-in or a stand-up for Stephen Lewis. When Stephen was first appointed by Prime Minister Brian Mulroney to the U.N., I was not sure that it was a good move. I have to confess that part of it was related to this terrible suspicion that partisan politics breathes into your soul once you've become an activist in the political war. I wondered how wise it was to appoint a person who had played such a prominent role in the leadership of another party to such a critical position as the representative of this country in the United Nations. I want to publicly apologise for the thoughts, which I fortunately didn't share widely at the time, and to say that, of all the appointments that this Government has made in its brief time in office, I can think of no one that has been more worthwhile and more important, not just for Canadians, but for the international community itself, than the appointment of Stephen Lewis as our Ambassador to the United Nations.

I have had the very good fortune to work closely with Stephen, and to have him with me on one of my missions to Africa. To see the role that he has constantly exercised at the U.N., in this country, in other countries. And if there is any danger, as I believe there is, it's in our missing an opportunity to play the critically important role at this stage, of creating a kind of international bridge. I think of no individual who can more effectively bring us back to the course that is so vitally needed than Stephen Lewis himself.

He had a very distinguished career in provincial politics in this province. He has also given leadership to the labour movement in this country, but I think all of that is prologue to the contribution he is making in the U.N. today. And I know, because I have listened to others who are at the U.N., how extensive and how rapidly the impact of his contribution and his influence has grown. I hope, even though the Secretary General caught him this week, Mr. President, he will have another opportunity to speak for himself, as he can do so effectively, and to speak for the kind of approach and leadership that he and his colleagues at the U.N. are exercising.

With respect to the issue for which I have been responsible these last few months, that of responding to the African crisis, there is, in my estimation, no one who has been more willing and more able to focus on the long-term concerns that we have with respect to Africa than Stephen. I say this because just yesterday when I was in Ottawa, I did an open-line radio program, as I have been doing a lot recently, trying to explain the situation in Africa, and trying to indicate the nature of our continuing response.

And at one stage, one of the great Canadians in this field, King Gordon, phoned up and said to me, "You know, David, there is only one thing that really needs to be said about all of this. It's not compassion, and it's not guilt. It is responsibility, and it is looking at the situation in realistic terms—what we're going to need if we're really going to get at the cause of famine itself in Africa, is a response similar in size and shape to the Marshall Plan in the recovery of Europe at the end of the Second World War."

It takes big people like King Gordon to have that kind of imagination.

I read a recent document from New York from some leading people in American public life who are also focussing on the big question of real recovery in Africa. The United Nations was created to look at the big challenges of peace, of hunger, of development of long-term collaboration among nations and peoples. In the last 40 years, we have been bruised and battered by the problems and the hostilities and the outright power grabs that have been taking place. But, the U.N. is still our best hope of surviving the 20th century, not with a diminished, but with an enhanced human community. We are still in the midst of that historic experiment. In its forefront, and in its own unique way, Canada has a role to play.

The appreciation of the audience was expressed by BGen. Stephen Andrunyk, a distinguished Past President of The Empire Club of Canada.

Patrick Reid
Ambassador and Commissioner General
The 1986 World Exposition

EXPO 86: THE STAGE IS SET

January 30, 1986

The President
Harry T. Seymour, Chairman

Mr. Seymour

Your Honour, Mr. Consul General, other distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today Patrick Reid, Ambassador and Commissioner General, Expo 86.

From May 2 through October 13, Vancouver will host the 1986 World Exposition, the largest world exposition of its kind ever held in North America. A fitting tribute for a city celebrating its centennial, as well as the 100th anniversary of the arrival of the first transcontinental train on the West Coast.

The enormity of this five-and-one-half-month celebration is best exemplified by citing some vital statistics. Estimates call for fifteen million people to visit the fair, which covers one hundred and seventy-three acres of waterfront on False Creek and Burrard Inlet in downtown Vancouver.

More than eighty pavilions will showcase the collective accomplishments of more than forty nations, seven provinces, two territories, three states and thirty corporations. One of these is Ontario, whose pavilion was designed by the Zeidler Roberts Partnership, known for such major projects as the world-famous Toronto Eaton Centre and the exceedingly popular Ontario Place.

The guidelines established by the pavilion committee a few years ago included space for a dark exhibition, a daylight exhibition, a cinema with an appropriate waiting area, a bar/restaurant, and a business-development centre with library.

The site selected is in the northeast corner of False Creek, between the east and the north entrances to the Expo grounds. It is visible from the light rapid transit (LRT) line and has views over False Creek.

The challenge for the architects, it was stated, was to "entice, within the building form, a sense of exploration and create through it enjoyment. . .respond to the spirit of the site and to all the many functional and technical necessities . . .Ultimately, the design must. . .create a memorable image."

The product, as it now stands, is a crescent-shaped structure incorporating all these guidelines. It rises above the water, overlooking all the action. The 750-seat cinema features one of the world's first 70mm, 3-D, multi-image movies, with a spine-tingling, heart-stopping tour of Ontario.

Who is responsible for co-ordinating this mammoth undertaking? Patrick Reid. He is responsible for ensuring that all appropriate measures are taken for the good order and efficient operation of the 1986 World Exposition, which has as its theme "World in Motion—World in Touch."

Ever since he became director of the Canadian Government Exhibition Commission in 1962, a position he held for eight years, Patrick Reid has been involved in world expositions abroad. In 1964 and 1967, he was Canada's Commissioner General at the Trienniale di Milano in Italy. He held the same position with Canada's pavilions at the 1968 San Antonio Hemisphere, at Expo 70 in Osaka, at Spokane in 1974, and at Okinawa in 1975.

He was chairman of the College of Commissioners General at Osaka and Spokane, representing all foreign participants. He relinquished his post as president of the Paris-based International Bureau of Expositions in 1981, shortly after his appointment to Expo 86.

It isn't every year that you have the opportunity to host fifteen million visitors to Canada's five-and-a-half-month-long fair!

Ladies and gentlemen, it gives me great pleasure to introduce Patrick Reid, Ambassador and Commissioner General of Expo 86, who will address us on the topic, "Expo 86: The Stage is Set."

Patrick Reid

I have the great honour to invite the members of The Empire Club, your families and friends, your employees and employers as well as those you encounter in the next ninety days or so, to visit Vancouver in its centennial year and to experience a quite extraordinary international and Canadian happening which will be opened in that city on May 2 by the Prince of Wales, and run until October 13.

It is appropriate to remind this audience that it was Her Majesty Queen Elizabeth II who invited the world to the 1986 World Exposition. The Queen did so in March 1983 in the first event ever held under the dome of the B.C. Place stadium. By the time the exposition concludes, some seventy other heads of state or government, or ministers, will have come to Vancouver to celebrate their countries' national days at Expo 86. Some fifteen million visitors will have come through the turnstiles to witness these great occasions and, as well, some eighty pavilions, over one thousand special events and fourteen thousand artistic performances—from the Kirov Ballet on its return to North America after an absence of more than 20 years, to a drum festival involving drummers from 25 nations. They can take their first ride in a train without wheels—the Japanese Magnetic Levitation HSST—or communicate by satellite with Arthur C. Clarke, by visiting the pavilion of Sri Lanka, which will be in touch with the greatest futurist of our time at his home in Colombo.

When I first visited Toronto on Expo 86 business in 1982, I was, of course, cordially received, even though there appeared to be some wonderment as to why the event was earmarked for Vancouver rather than Toronto. The answer to that was, and is, that the government of British Columbia asked for the exposition in 1978 and agreed to put up the money (now about $800 million) to develop and run it.

I hope Toronto's turn will come, if that is what Ontarians want, but right now I am sure you will agree that it is a good thing for Canada, and not untimely, that a really major national celebration should take place in the West. Indeed, the basic theme of the exposition, which is transportation, has its root in the fact that the first transcontinental Canadian train reached Pacific tidewater in 1886, thus fulfilling the promise that brought British Columbia into Confederation and bound our nation forever.

In that short century, Vancouver has become the largest seaport in all the Americas after New York. It is a burgeoning communications centre on the Pacific with, for example, direct flights from as far away as Hong Kong and Sydney, as well as Tokyo, London, Frankfurt and Amsterdam. Our foreign participants were sold on the prospect that Vancouver would deliver a North American audience and, as well, a Pacific Rim market. So was the government of Ontario, whose splendid pavilion dominates False Creek and overlooks the Skytrain—that product of Ontario transit expertise that is now delighting Lower Mainland commuters and politicians.

To deliver that North American audience, we have already sold well over eight million visits, well over 60 per cent of the expected gate, which is unprecedented for any world exposition, anywhere. And we are just now getting into high gear in the key California market. One of the things that impresses Californians is that we have more support from corporations, about $170 million to date, than was achieved at the 1984 Los Angeles Olympics, which was funded totally by the private sector.

We have a site that is sold out, and we now have the embarrassment of having to tell latecoming exhibitors that there is no room, which allows me to announce today that our latest, and last, participants will round out the promised Pacific Rim market in a rather exotic manner. We will have a South Pacific Pavilion at Expo 86, comprising principally Commonwealth islands, such as Fiji, Western Samoa and the Cook Islands, and all of them appearing together for the first time in the Americas.

In the process, we have broken the record for governmental participation at a specialized exposition, and I would tend to think that the Vancouver record will stand up well into the next century. Statistically, therefore, Expo 86 is unique. But that is not the important issue.

A world exposition is a statement of human accomplishment on a theme of international significance as well as a vision of our aspirations. It succeeds only to the extent that it conveys that statement and that vision to two complementary audiences: the general visitor, and the visitor who has a particular or professional interest in the theme. The heart and soul of the exposition is its content and the methods used to interpret the theme.

Thus the exhibits are more important than the buildings, the concessions and the festivals. All these one can get at any major celebration or carnival. They are important but they are not vital.

The delight, surprise and wonderment of visitors should come from well-chosen and well-presented exhibits that arise from the efforts of the organizers, the participating nations and corporations. That is the accomplishment and the joy of a world exposition. There is no other means of international and personal communication that can give this sort of immediacy and depth to an idea.

There is no such thing, either, as a Second Category or Class B world exposition. It is both inaccurate and pejorative to the nations and other participants that have mounted major efforts and substantial budgets to participate in a specialized world exposition such as Expo 86 to suggest otherwise. There are two types of world expositions—universal and specialized.

Expo 67 Montreal and Expo 70 Osaka were the last of the universal expositions that invariably demand large sites, a largely unfocussed theme and large markets and budgets; and encourage architectural innovation. In their time, they were extraordinary, but their time may have passed. Several attempts have been made to mount universal expositions since 1970. All have failed through lack of host-government leadership and through lack of sufficient financial support.

The specialized exposition like Expo 86 with a manageable site and a sharply focussed theme is more realistic and more attuned to the international circumstances of the Eighties. The proof that Expo 86 reflects this reality is in the roster of more than 80 foreign and domestic government and corporate pavilions taking shape on site in Vancouver.

In a way, it is that the ideals of Expo 86 and of 1986 itself are less pretentious and less monumental than in the past. There is more diversity and a greater multiplicity of values to reflect upon, and even the entertainment at Expo 86 will do this.

Apart from the choice of Vancouver as the site, there are two reasons why the 1986 World Exposition is receiving such strong international support. One is Canada's reputation as a host, established by Expo 67 in Montreal.

A second reason is the theme. As a continuing preoccupation of mankind, transportation and communications are outranked only by food and shelter.

Expo 86 is the first world exposition on this theme to be held outside Europe and only the second to embrace the theme since the first world exposition in 1851 in London.

Every Expo 86 participant, whether from the industrialized or the developing world, is required to deal seriously with the theme in some fashion.

The theme is timely in a day and age when transportation is undergoing unprecedented change and when changes in related communications technology are revolutionary.

To give its theme close attention, Expo 86 has created several important programmes.

In January 1984 and in March 1985, the world's distinguished leaders in transportation and communications gathered for workshops and seminars at the Expo symposium series, "Tomorrow begins today." The final symposium will be held in May 1986, just after the opening of Expo 86. The keynote speaker will be Thor Heyerdahl, the noted Norwegian anthropologist and explorer.

Then there are the specialized periods, which will be presented during the five-and-a-half months of Expo.

Fourteen in all, the specialized periods range from "Urban Transit" to "Alternative Fuel and Power Systems for Transportation" to "Underwater and Offshore Resources." The specialized periods are new to the world expositions, another Expo 86 "first". They will act as fora for international and Canadian business featuring displays and demonstrations on the Expo site as well as throughout the Vancouver area. Organizers are scheduling the specialized periods to coincide with professional seminars and major conferences closely connected to their themes.

Take the example of urban transit. Already there is, from June 10 to 12, a full-scale international highway transportation fair: the Canadian Trucking association conference June 10-14; a seminar on road design in developing countries on June 12; the Canadian Urban Transit Association and Bus Rodeo June 15-19; the American Public Transit Workshop and Trade Show June 18-20; a symposium on modern Swiss technology in urban and suburban transit (sponsored by the Swissrail Export Association) June 20-21; a technical seminar on the HSST demonstration system (sponsored by Japan Air Lines and Sumitomo Electric) on June 23; an ALRT symposium (by B.C. Transit) on June 19 and a technical seminar on the SK System (people-mover system by Soule of France) on June 26. Those with particular interests in urban transit will have much to see and discuss during this period.

As well as the specific theme periods, there are many other related activities that will enhance transportation and communications. Close to 80 conferences will be held in Vancouver in 1986, including the World Conference on Transportation Research and the International Telecommunications Conference.

All of these activities will enable business people to make contact with professionals and prospects who are being invited to attend more than 1,000 special events, conferences, symposia, exhibits and specialized periods. Of the 15 million expected visits to Expo 86, it is believed more than 1.2 million individuals seriously interested in the theme will come to Vancouver in 1986.

Canadian participants alone are inviting more than one hundred and thirty thousand business people by name from across Canada, the United States and abroad.

Canada Place, the home of the Canada Pavilion, will host the 1986 General Assembly of World Trade Centres.

The Government of Canada is creating a Business Opportunity Centre in Canada Place. This Centre will assist in promoting and expanding international commercial links.

The size, quality and inherent prestige of an international event such as Expo 86 brings many rewards to the participants. They will have international exposure to visitors—business, professional and recreational—and coverage in mass and specialised media. For governments and corporations, Expo 86 presents the opportunity to stand on the world stage during 1986.

The fourteen specialized periods will be held as follows:

Polar Transportation and Communications	May 5—11
Search and Rescue	May 12—18
Trucks and Intercity Buses	June 9—15
Urban Transit	June 16—30
Automobiles	July 6—19
Communications and Mobility for Elderly and Diabled People	July 20—25
Marine Commerce	July 21—31

Aviation	August 1—10
Alternative Fuel and Power Systems For Transportation	August 8—17
Transportation for Recreation	August 18—24
Human-powered Transportation	August 25—31
Communications	September 7—13
Underwater and Offshore Resources	September 12—21
Modern Rail	September 29—October 5

Thus we are virtually running two parallel expositions, for two audiences that can, to a considerable extent, happily intermingle. A family outing can take in the events of the Aviation Week at three airfields around Vancouver while an aviation expert can enjoy the Ramses II exhibit on the main site of the exposition.

The stage is set, and well set, for the 1986 World Exposition. The cast is assembling, from Prague to Canberra, from Beijing to Nairobi, from Riyadh to Lima, from Charlottetown to Yellowknife. The occasion will be a Canadian triumph in which we can all take pride.

The host province of British Columbia and the metropolis of Vancouver will benefit enormously both in physical assets already built or under way and in international exchange and economics. All participants, particularly Ontario, will be able to report a worthwhile promotion and an exceptional experience in nation-building.

And we will have done something, we hope, for the peace of the world. Aurelio Peccei certainly felt we could, and should, when, as co-founder of the Club of Rome, he was guest of honour at the first Expo 86 symposium in January 1984. He issued a challenge that "world governments, private corporations and professionals should come to participate in the 1986 World Exposition: to come, to share and exchange knowledge that will ultimately lead to greater world harmony and understanding." His last public words in Vancouver in 1984, and regrettably his last major speech because he died shortly thereafter, were:

"My hope and wish is that you will be able to shape and build Expo 86 in such a way that it will be a turning point for our generations on their path towards a more mature and humane society.”

That has been our goal and my personal endeavour. It is somehow the right sort of enterprise for Canadians and for Canada. I hope you can come and be part of it.

The appreciation of the audience was expressed by Robert Armstrong, a distinguished Past President of The Club.

Allan Slaight

Chairman, Shaw Festival

SHAW FESTIVAL—25TH ANNIVERSARY

February 6, 1986

The President
Harry T. Seymour, Chairman

Mr. Seymour

Reverend Sir, distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today Allan Slaight, Chairman of the Shaw Festival at Niagara-on-the-Lake.

From its humble beginnings in an old courthouse in Niagara-on-the-Lake in 1962, the Shaw Festival is now a "Jewel in the Crown" of theatre festivals, playing to capacity audiences in three theatres every summer. The plays of George Bernard Shaw and his contemporaries have delighted audiences in a festival that has been described as "once small but mighty, now looks simply mighty."

It is acknowledged that, because of the genius of George Bernard Shaw (1856-1950), "our dramatic work is livelier, more serious, more deeply concerned with life than it has been at any time since the days of (English novelist) Henry Fielding. Insofar as any one man is responsible for this, that man is Shaw.

"There can be no doubt that his plays amused, stimulated, exasperated and shocked his contemporaries. . .that no plays since Congreve's have more pointed and eloquent dialogue, and that he was a man of great intelligence and immense seriousness of purpose."

Through its quarter-century of operation, the Shaw Festival has earned a reputation for the excellent quality of its productions, the efficiency of its management, and its creative endeavours.

In celebration of its 25th anniversary, the festival has announced several creative events, including: a gala, starring the National Ballet of Canada, the Stratford Festival, and the Canadian Opera Company; and a jazz concert, featuring 19 top musicians in tribute to the artistry in rhythm of Stan Kenton.

Originally from Galt, Ontario, Allan Slaight moved to Moose Jaw, Saskatchewan, with his family in 1948 when his father purchased the *Moose Jaw Times-Herald* newspaper, and later a local radio station as well.

After only a few months at the University of Saskatchewan, Slaight quit school to work in radio. In 1958, he joined CHUM Radio in Toronto and, as program director, made it the most popular Top-40 station in the country. He later turned CHUM-FM into a classical music station, but left in 1966 to work in radio in Britain.

Back in Canada in 1970, Slaight purchased Toronto's CFGM and Montreal's CFOX. Four years later, his broadcasting company was in a position to take over the ailing Global television network.

Our guest attracted considerable media attention in November, 1984, when he and three executives from different television networks formed The Committee for the Responsible Privatization of CBC Television. Shortly after Prime Minister Brian Mulroney scotched any plans to privatize the CBC in January, 1985, Slaight turned his attention to the possible acquisition of Standard Broadcasting. In May, after a bitter battle with a rival suitor, Slaight gained control of what many consider the best broadcasting organization in Canada.

Besides being chairman of the Shaw Festival, Slaight was last year's campaign chairman for the United Way of Greater Toronto, which raised a record twenty-nine and a half million dollars. How does Slaight view his community involvement?

"It's a way of paying your dues to a system that has been resonably good to you from time to time."

Ladies and gentlemen, it gives me great pleasure to introduce Allan Slaight, Chairman of the Shaw Festival, who will address us on the topic, "Shaw Festival—25th Anniversary."

Allan Slaight

I recall the day Harry Seymour phoned. It initially sounded so simple: We'd like you to address The Empire Club about the Shaw Festival. "What could be easier?" I thought, as I rapidly acquiesced. Employing my life-long maxim: "When in doubt, procrastinate," I did no more than noodle thoughts around in my mind until Ada and I flew back last Friday from a business trip to London.

When we entered our home after our week away, the mail produced a book I had ordered: The Little Brown Book of Anecdotes, by Clifton Fadiman. I eagerly looked up "Shaw, George Bernard" and read: "Born 1856, died 1950. Irish playwright. Born in Dublin, he went to London at the age of twenty, where he remained for the rest of his life. After writing five unsuccessful novels, he became a music and drama critic and an active socialist. He wrote more than forty plays, many of which have retained their enormous popularity. He was a witty speaker and writer of letters."

Not quite as scholarly a piece as one would expect from Clifton, but nevertheless curtly informative.

I naturally read on to the anecdotes. Mr. Fadiman tells us that, while Shaw was still a music critic, he was dining with a friend in a restaurant that provided, for entertainment, an orchestra that was at best mediocre. The leader, recognizing Shaw, wrote him a note asking him what he would like the orchestra to play next. "Dominoes," replied Shaw.

And I enjoyed the anecdote about a lady, notorious for courting celebrities, who sent Shaw an invitation reading:

"Lady Smithers will be at home on Tuesday between four and six o'clock." Shaw returned the card annotated: "Mr. Bernard Shaw likewise." He *was* a crusty devil!

Now let's get down to business.

On May 28, we will officially launch our 25th season. During the summer of 1962, the historic Court House on Queen Street in Niagara-on-the-Lake was converted into a small theatre. Eight weekend performances of *Don Jaun in Hell* and *Candida* by George Bernard Shaw were presented. The event was organized by Brian Doherty and titled "Salute to Shaw."

The tremendous success of these productions led to the establishment of the Shaw Festival Theatre Foundation in 1963. Headed by Calvin Rand, it was created as a non-profit organization with a board of directors whose mandate was to produce the dramatic works of George Bernard Shaw and his contemporaries.

The next year, 1964, a young actor named Christopher Newton became a member of the Shaw company under Andrew Allan. Christopher reminisced recently at our annual meeting:

"I remember the town as charming but far from prosperous and the rehearsals bizarre. Andrew Allan used to leave at three o'clock to have a little something at the Prince of Wales Hotel. I can't ever remember him returning earlier than the following morning."

Christopher returned as artistic director of the festival in 1980. He came to us from Vancouver where he had been artistic director of the Vancouver Playhouse.

In 1981, his first season, Chris enlarged the schedule to include eleven productions, a dance program, a musical in the newly acquired Royal George Theatre and lunchtime performances of Shaw's one-act plays.

Nineteen eighty-two saw several firsts at the Shaw Festival including the opening of *Cyrano de Bergerac. Cyrano* starred Heath Lamberts and proved such an overwhelming success that it returned to the festival in 1983 and 1984.

In 1983, several new additions to the season's playbill included the start of the "Risk Series" at the Court House Theatre—a play chosen for its somewhat obscure and daring appeal to be performed for a limited engagement of one week only. The first in this series was *The Vortex* by Noel Coward.

In 1984, Shaw announced its first CBC television taping—*Celimare* or *Friends of a Feather*. This production was aired on national TV in February, 1985. *Cyrano de Bergerac* moved to Toronto for a six-week run at the Royal Alexandra Theatre. The first Toronto Project was initiated in conjunction with Toronto Free Theatre to produce Tilly's *Delicatessen*.

The fall of 1984 and September 18 saw the result of one of the festival's most ambitious efforts. Orwell's *1984* involved the entire town of Niagara-on-the-Lake, most of the Shaw Festival Company (including administration, production, and acting ensemble) as well as a limited audience of 600 for this one-performance spectacular. The workshop, directed by Johanna Mercer, evolved into one of the largest examples of environment theatre in North America.

In a letter to Anna Stratton at The Canada Council shortly after the event, Christopher wrote:

"I think we are unique. I've never heard of a theatre going about its work in quite the way we do. We are very serious. Yet we actively encourage eccentricity, singularity, and a kind of mad euphoria. If we didn't encourage it, we would never have produced *1984*, that one glorious, crazed event. (It was when the two planes swept out of the night sky and buzzed the hate rally with its giant video screens and strange fires that I knew we were on to something!)"

Nineteen eighty-five saw a continuation of the festival's inspiring success. Ticket sales surpassed the projected $4,200,000 mark, and marvellous production standards were achieved with the North American premiere of Noel Coward's *Cavalcade*, employing the largest cast and crew in the festival's history.

Our finest season also featured productions of Shaw's

Heartbreak House, which later toured to the National Arts Centre in Ottawa; the most popular farce in our history, *One for the Pot*, starring the awesomely talented Heath Lamberts; *The Madwoman of Chaillot*; *The Women* by Clare Booth Luce; and Agatha Christie's *Murder on the Nile*, which launched our annual murder mystery series.

In 1985, through the continued formalization of the workshop concept, we saw the birth of The Academy. We must become a teaching as well as a performing company. And now The Academy operates from a space in the old boatworks warehouse by the Niagara River. The new space is now called home for a series of dance, movement, voice, singing and technique classes.

Christopher Newton aims to turn the Shaw Festival into a great company. He wants it recognized that we are on a par with the Royal Theatre in Stockholm and the Berliner Ensemble. He has codified our aims into categories: technique, creativity, exploration, continuity and maturity.

A great company has a consistent standard of excellence, must offer one or more interpretations each season that are revealing and innovative, must search out and display new talent, must develop a framework that enables these things to happen in an environment that encourages them.

The Academy will help in the further development of all of these areas. It can employ basic teachers for technique; it can co-ordinate all the writing workshops; it can expand and provide expertise for the video workshop. By its very existence, it can remind everyone that we have a lot to learn.

Christopher and Paul Reynolds, our producer, believe passionately in the importance of The Academy, and they had little trouble convincing the board of governors. The Academy is off and running. It can help change theatre in this country.

The Shaw Festival is essentially an art theatre. This means that the work we do, for the most part, aims to change the perceptions of our audience members.

However, our level of government subsidy is picayune, compared with the great companies of Europe or even the lesser companies of the United Kingdom. And for this reason, we are often required to operate also as a commercial producing house, and that isn't all bad. You see, we have desserts on our menu: the miniaturized musical, the farce, and, now, the murder mystery. These desserts are useful in two ways: they make money and they provide practice in technical skills and styles. It should be obvious that singing and dancing and comedy are serious talents that require skill and serious study.

In the summer we do old plays. We revive plays by Shaw or by authors who lived during his lifetime. Luckily, his was a long life of 96 years and there are plenty of interesting works to choose from. To do them well, we firmly believe we should also do new plays, plays totally of our time. As Christopher has pointed out:

"Every play must be of our time, but not every play is written in it. Shakespeare and Shaw become modern art as soon as they are acted, but the words remain old words. New words are sometimes necessary to help reveal and understand the old ones."

To encourage this new material, we are beginning to establish a Toronto presence referred to earlier as The Toronto Project.

In 1984, as I mentioned, in co-operation with the Toronto Free Theatre, we presented *Delicatessen* by the French playwright Tilly. It was a most unusual work, quite controversial, and ran with great success for eleven weeks.

In 1985, again with Toronto Free Theatre, Shaw staged Vancouver author Michael Mercer's *Goodnight, Disgrace*, a new Canadian play about author Malcolm Lowry.

Our Toronto Project activities thus far in 1986 perfectly depict our energy, our eclectic approach to theatre, and our courage. George Bernard Shaw didn't play it safe, and neither do Christopher and his associates. Our co-production with Factory Theatre of Sheldon Rosen's *Souvenirs* opened on New Year's Eve.

"A compelling evening," said *The Toronto Star*. "Excellent performances," wrote *The Globe and Mail*. And, one week later, on January 8, we again returned to Toronto Free Theatre to co-present *As Is*, William Hoffman's award-winning Broadway hit about living with AIDS. Again, the reviews were excellent with *The Globe* devoting half a page to Ray Conlogue's assessment, which was headed: "*As Is* gets superb treatment."

Somehow, just when it might be assumed we are falling into a pattern, we seem to go off in the other direction. I mentioned a moment ago that The Toronto Project is to encourage new works. Then *why* are we involved in the presentation of *Desert Song* at the Bayview Playhouse? Sigmund Romberg wrote that one sixty years ago! But no one can say we're in a rut when we have *Desert Song* and *As Is* on Toronto stages at the same time.

We *do* wish to establish a presence in Toronto. The Shaw Festival does not operate on the imported star system, but, rather, we are a true repertory company, the finest in Canada and one of the best in the world. Our Niagara-on-the-Lake season runs from May to October. How wonderful it would be if many of these performers could then be transferred to Toronto to appear in Shaw productions and co-productions in this city. Half the year at Niagara-on-the-Lake; half the year in Toronto. Employed, and honing their craft on a regular, rather than an intermittent, basis. It began as a dream; we're coming around to considering it a practical objective. We're working on it, but the most realistic approach is to operate from our own theatre—and that takes money.

Let's talk about money and the arts for a moment. Many Canadians perceive government, and private, funding for the theatrical community in this country as sinful: Dollars better deployed elsewhere turned over with reckless generosity to crazed subversives who tramp our stages mouthing vulgar phrases and damning the very system that supports them, while casually squandering their handouts! Well, let's be honest, there *is* a bit of that. But, and I know you'll agree with me, *not* very much. Most of us are professional and responsible.

I am proud to report that the Shaw Festival generated an operating profit of more than $100,000 in our last fiscal year. However, I must add a sombre and cautionary note. We've just come off an absolutely sensational season. Christopher gambled big with *Cavalcade*, and he won! Although our costs were higher than originally budgeted, primarily because of *Cavalcade*, the amazing Mr. Newton was able to make that up, plus a bit more, because of our excellent ticket sales.

We recorded a most impressive statistic: we sold 84 per cent of all available seats in every one of our three theatres throughout the full season. Stratford was in the 65-per-cent range.

There is absolutely no guarantee that we can count on the same rather awesome ticket sales in 1986 and there is always inexorable pressure on our operating costs.

Because of this unexpected operating profit, we have now managed to reduce our deficit to $88,000. We applaud Paul Reynolds and his executive group, and everyone on staff and stage, for the work they've done in controlling costs and operating in an efficient manner. That, coupled with our superb season, is the sort of performance that makes us the envy of the arts community in Canada.

Yes, we had a fine season. We generated a small profit. We're looking forward with excitement and enthusiasm to our 25th Anniversary season. However, let me express some additional concerns and identify some challenges:

In 1985, only eleven per cent of our total revenues came from various levels of government. Incidentally, we receive about the same percentage of total revenues from the federal and provincial governments in the form of grants as Stratford, currently around eleven per cent. The Toronto Symphony receives twenty-five per cent of its revenue in the form of government grants. The Canadian Opera Company gets thirty per cent from government. The National Ballet receives half of its total revenues from the taxpayer.

The argument can always be made, particularly with (Finance Minister) Michael Wilson's problems with the deficit, that arts groups should be self-sustaining. At one time, I had a certain sympathy for that viewpoint, but then I started examining the figures. For example:

Statistics Canada estimates that in 1982-83 the direct impact of the arts-and-culture sector on the Gross Domestic Product approached *eight billion dollars*! We're right up there with mines and metals, higher than textiles and clothing. Between 1971 and 1981, the arts labour force grew at a much higher rate than the total labour force. Our labour force increased seventy-four per cent in those ten years; the total labour force went up by thirty-nine per cent. We're now the sixth-largest industry in Canada in terms of salaries and wages.

The cultural community in Canada is a most significant provider of jobs and payer of taxes. It immeasurably enhances our tourism industry. It's an important economic force.

The Hon. Flora MacDonald, our federal Employment Minister, was in Edmonton recently at the Citadel Theatre, suggesting that the Department of Employment should begin to consider the cultural industry as an area where job-creation programs can be effective.

Flora is right. Culture merits further government support, simply for reasons of good business. However, the Government must formulate a new funding policy. The inefficient and those who brazenly misuse our tax dollars should be penalized. Those who operate with competence and a careful eye on expenses should be rewarded.

In Britain, companies such as The Royal Shakespeare or The National Theatre obtain fifty per cent of their total revenues from government. That's not appropriate in Canada and many of us would be offended if it was the case! However, it does seem reasonable to urge Queen's

Park and Ottawa to pick up a greater percentage of the tab.

Peter Herrndorf recently retired as president of The Stratford Festival and suggested when he spoke to his board at its annual meeting last December that the two levels of government should contribute a minimum of twenty per cent to Stratford. I'm praying that Stratford can pull it off! When Christopher addressed our annual meeting last month, he said:

"Sometimes it's more convenient to be cruising along in the wake of a more powerful neighbour. (We as Canadians, of all people, should be aware of this.) Stratford is the flagship of English theatre in Canada, a great battleship. Right now, it's a little rusty and undergoing a bit of an overhaul."

"We, on the other hand, can be compared to a cruise line. Moderately, not luxuriously, equipped, but we call at a lot of interesting places and give a lot of people value for their money. Maybe a touch understated. This year we might improve the first-class cabins; next year, the ballroom."

So Shaw will aggressively be going after higher government grants. We will make a determined effort, and we hope convincing representations to the federal and provincial governments for higher funding for the Shaw Festival. We deserve it! And we should *not* be penalized or ignored because of our efficiencies, our cost controls, the staggering energy and commitment of everyone involved with the Shaw. And I can tell you that, in personal conversations with our Minister of Communications, Marcel Masse, he has told me that he wants to work out a formula that in terms of government grants and funding, will recognize excellence and penalize incompetence and financial abuses.

As I relaxed on the flight home from London, I read Conrad Black's *Daily Telegraph*. Although there was no coverage concerning thefts from Dominion Stores, there *was* an editorial captioned: "Wells Running Dry." It began:

"Generations of theatregoers will feel a pang at reports that Sadler's Wells Theatre may have to close in a matter of weeks." It develops the theatre is short some two hundred seventy thousand pounds for the coming year, the victim of a sudden government-grant cutback. The moral there for the Shaw Festival: fight hard for government funds, work like the devil to increase government's level of giving, but *don't* become too dependent on those dollars.

Private funding is an area causing us grave concern. I'm referring to donations from individuals and corporations. In 1981 10.4 per cent of our total revenues came from private sources. In 1985, as overall revenues rose, the private sector funded only 6.9 per cent of our total. Although the percentage figure has diminished alarmingly, in actual dollars we are generating more private donations, thanks to the prodigious efforts of our development director, Maureen Marinelli. But it's not enough, because we're not receiving as much as we deserve. And *that* is because, in part, we are being penalized by an attitude at certain corporations that "Shaw doesn't need the money." Some companies have actually told us:

"You're successful. We'll give our money to someone who's in trouble."

It doesn't really seem to pay to keep a lid on salaries and expenses, to have Chris and Paul and their management group anguish over their budgets and costs and salaries, including their own. To, of all things! generate an *operating profit*.

You know something? *We're really good!* But I suggest we're going to get better. And I really believe the tide will shift so that, the better we are, the better we do in private and government funding.

Let me quote several excerpts from an item in the January 13 *Toronto Star*. Headed "Arts need business savvy, says a major supporter." It begins:

"The people who run Canadian arts organizations must become better business managers if they hope to gain more funds from public and private sources, says a brief submitted by Northern Telecom Ltd., a major supporter of the arts in Canada."

I think it only fair to report to you that Northern Telecom's president, David Vice, was asked to join our board *before* we saw this item!

The article quoted several horror stories and said:

"Because of such incidents, Telecom donations now go only to better-managed groups. Arts managers and boards of directors of arts organizations must improve their skills as finance managers and administrators, if they hope to attract much-needed dollars from corporate benefactors, the brief says." Hear, hear!

I can't resist giving you one of those horrible examples. A quote from the article: "In one case, an arts group telephoned at 6:30 p.m. seeking $100,000 and then expressed resentment when Telecom suggested the proposal be put on paper for consideration."

We need much more support from the private sector, from individuals and from companies. We need it for The Academy. We need it for The Toronto Project. We need it to make Canadian theatre even better.

Ticket prices are a delicate and sensitive issue. Please remember that we have a total in our three theatres of 1,500 seats, while Stratford has something in the range of 3,800. It's one of the reasons we must charge more for our top-price tickets. Stratford froze its top-ticket prices in 1986. The Shaw Festival has instituted an increase of 14 per cent! Our top ticket is now $32.50. Stratford's comparable price is $30.

Let me assure you that our higher prices were not created because of a "We're-better-than-they-are" attitude but because of raw necessity. It's a thorny and irksome problem we must address most carefully.

The *big* story in London last week was Rupert Murdoch's apparent victory over the printing unions that have strangled Fleet Street for decades. Aha! I thought, a natural tie-in with the union situation at certain Canadian live theatres. However, a fast phone call to Shaw producer Paul Reynolds for an update on our relations with the International Alliance of

Theatrical Stage Employees provided the comment:

"Quite good, actually. We're under the St. Catharines local and have an excellent relationship with them."

And Peter Herrndorf, past chairman of the Stratford Festival, told me their local of IATSE was—and I'm quoting Peter—"tremendously committed to the theatre. When we explained our serious financial problems to their officials a year or two ago, they co-operated immediately by accepting a wage freeze. They even encouraged other employees and union members to give us the benefit of the doubt and do the same thing."

I know this isn't necessarily the case with certain Toronto theatres that have had serious IATSE problems, and, as an overview comment, I sincerely trust our local theatre groups and IATSE in Toronto will somehow resolve their differences in a manner that will not threaten the viability of the O'Keefe Centre or the St. Lawrence Centre. There is a breakpoint when it comes to meeting union demands, particularly in a financially fragile area such as culture.

Now, on to the positive stuff:

We held a press conference on Tuesday to kick off our very special 25th-anniversary season. In terms of our exciting 1986 programme schedule, you will have found a copy at your seat. As the fellow says on television: "C'mon down!"

We have announced some unusual events for 1986.

There will be a special tribute to orchestra leader Stan Kenton: some 20 professional musicians recreating his famous jazz works. Shaw would love it.

We are holding a students' playwriting competition. The winning plays from Ontario students will be produced by members of The Academy in our 1987 season.

We announced that CBC television will broadcast our hit farce *One for the Pot*, starring Heath Lamberts. (Maybe the CBC isn't so bad after all!)

We announced a silver anniversary gala on July 22, headlining some of Canada's most distinguished talent.

We announced we will mount a retrospective of 25 years of design at the Festival.

We announced a search for literary treasures—letters, manuscripts, books and other Shaw material—now in the hands of Canadians.

We announced that a clipping from a mulberry tree planted in England by George Bernard Shaw himself exactly 50 years ago will be transplanted to Niagara-on-the-Lake. We call it "The Shaw Shoot"!

And, we announced a Gentlemen's Boxing Evening on April 21. Men only. Black ties. A boxing ring will have been set up in the concert hall of the Royal York. Dinner followed by brandy and cigars and three bouts of professional boxing. We trust this will become an important annual fund-raiser. Women in tuxedos will *not* be admitted!

And at our annual meeting last month, I announced plans to steal a page from Stratford's book. We are going to borrow their idea of "The Friends of Stratford," a Toronto-based committee that works on fund-raising projects. We promise not to steal the name.

And, of course, we are planning the return of the annual Shaw Auction, currently our single most important fund-raising event, in October.

As you can see, we're a busy bunch. I am proud and I am honoured to be concluding my two-year term in 1986, our 25th-anniversary season. I know my successor, John Clappison, will find his time in office as enjoyable, as gratifying, and as much fun, as I am finding, and, I'm sure, as Gary did. We're really quite special: a truly excellent relationship between board and staff, the finest theatre staff that one could ask for, and an absolutely wonderful board of governors—interested, committed, active!

I thank staff and board for their support. I ask for yours. Thank you on behalf of the Shaw Festival.

The appreciation of the audience was expressed by Hal Jackman, a distinguished Past President of The Empire Club.

Marie-Josée Drouin

Executive Director,
Hudson Institute Inc.

CANADA 1986: NEW REALITIES

February 13, 1986

The President
Harry T. Seymour, Chairman

Mr. Seymour

Distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today Ms. Marie-Josée Drouin, Executive Director of The Hudson Institute.

The Hudson Institute, founded by the late Herman Kahn in 1961, is a New York-based "think tank" of social, economic and political public policy, or, to use the Institute's vernacular, "the study of futurology."

Unlike the Economic Council, the Institute does not use mathematical models to make social and economic predictions, but rather studies what these models reveal. It also analyses the findings of major polling organizations before formulating its conclusions.

Simply stated, the Institute examines the past and present, and then seeks future trends constructing scenarios of what's likely to happen, based on certain research assumptions.

What is the major finding from twenty-five years of studies? The persistent underlying problem is always political and social. How much are we prepared to pay to have continued material growth, plus a clean environment, plus help for the poor nations?

In the words of Ms. Drouin:

"A new social contract, if it is to remedy the national stalemate, must put a premium on that (incentive) spirit which is the essence of the work-ethic we've virtually legislated out of existence in the pursuit of social security. We've put the reward ahead of the effort by which it is earned! In so doing, we've lost sight of what really makes our society socially progressive and secure."

Born in Ottawa, Marie-Josée Drouin is a graduate of the University of Ottawa, where she obtained a Master of Arts degree in economics. After holding positions of increasing responsibility with Power Corporation of Canada, the Ministry of Supply and Services and the Solicitor General of Canada, in 1973 Ms. Drouin joined The Hudson Institute, where she is now the Executive Director.

In addition to running The Hudson Institute's Canadian activities, Ms. Drouin was also responsible for The Institute's corporate environment programme prior to accepting her current mandate. In this capacity, she directed a team of Hudson futurologists who predict for eighty corporate firms what the social and economic environment will be like in the future.

Notwithstanding her major commitment to the Institute, our guest finds time to be an active member of the board of directors of The Seagram Co. Ltd., Trust Generale du Canada, L'Alliance Mutuelle Insurance Company, Philips (Canada) Ltd., Mediacom Ltd., and Lise Watier Inc.

Her community involvement includes the position of treasurer of the development campaign, St. Mary's Hospital, Montreal.

Our guest is one half of what is generally considered one of the most interesting couples in Montreal. She is the wife of Charles Dutoit, conductor of the celebrated Montreal Symphony Orchestra. Yet, as Joanne Philpott expressed it so well in a *Globe and Mail* article recently, she is "a personage in her own right who balances with élan the dual roles of wife of a public figure and economist and public policy analyst."

Ladies and gentlemen, it gives me great pleasure to introduce Ms. Marie-Josée Drouin, Executive Director of The Hudson Institute, who will address us on the topic "Canada 1986: New Realities."

Marie-Josée Drouin

Ladies and gentlemen, head table guests: Thank you very much for giving me this opportunity of sharing my views about Canada with you. As the chairman pointed out, my remarks will focus on broad economic and social trends, or on what we would call the political economy.

I will refrain from trying to predict interest rates or the value of the Canadian dollar over the course of the next few months. I think you are probably overloaded with forecasts of that nature and perhaps do not have sufficient time to reflect upon some of the underlying trends that are taking place in Canadian society and in the societies of industrial economies in general.

Given the tradition, history, and the nature of The Empire Club, this is an excellent forum in which to discuss some of these long-term trends and underlying conditions likely to affect Canada over the course of the next decade, or, at least, over the course of the next few years.

Truthfully, another reason I decided against trying to predict interest rates and exchange rates is that we will be faced with a new federal budget in just thirteen days. I decided not to try to outguess my economist friends. In fact, I was reminded of a friend's remark—or maybe I should say a former friend—who told me that "economists were created to make astrologers look serious." We are in a very risky business indeed.

We are constantly reminded that Canada must make hard choices, in fiscal policy, social policy, and trade policy. It is imperative that we understand what these choices really are. What are the opinions underlying these choices? Making the correct choices depends on the shared perception we have as

Canadians of how our society and our economy are evolving. Therefore, I am going to don a much riskier hat, that of futurist or futurologist, and share some of my views about the future with you.

When we speak of futurology, we are not trying to predict the future. The best analogy is a horse race. You are looking at which horses are running and you are trying to assign probabilities. You are not trying to predict the outcome of the race.

Let me refer first to one of the much-maligned concepts often referred to when the future is discussed—the post-industrial society. We constantly hear that we are in a post-industrial society, an image that conveys the view of a totally service-oriented economy concomitant with the disappearance of manufacturing and basic industry. That is a definite misconception.

I am going to use the prefix "post" to describe many trends, but I use it in the sense of "what comes after," and, in each case, I'd like you to ask yourself: "What comes next?"

That is how the issues should be explored. "Post" refers to what comes after, not to what comes instead.

Our societies are both super-industrial and post-industrial. We will have to increase our investments considerably to modernise our manufacturing apparatus.

Post-industrialism will also carry with it a great deal of industrialism. But the post-industrial thrust will change, and is changing, many of the ways in which we will do business in the future. It is introducing new services, new industries, and new ways of doing business and of linking businesses.

However, it is crucial that we maintain a proper balance between different economic sectors. It is imperative, for example, that government policy not tax or handicap certain industries—manufacturing, for example.

It is important that taxation be neutral; that we shy away from the temptation to pick winners and losers, which is a prevalent temptation of many governments. If government policies are based on the assumption that the demise of basic manufacturing is inevitable, manufacturing may very well fail to attract enough investment to maintain those activities that would otherwise enjoy good prospects.

Service and high technology do not monopolize industrial change or positive adjustment.

Moreover, the service sector runs the gamut from low to high capital intensity. Although we are somewhat enamoured with the concept of the high-tech society, it is much more complicated than what the glamourous press reviews often indicate. It is very important that we understand how we approach the process of "creative destruction," destroying the old to create the new.

This is all the more important if we consider some of the characteristics of the service sector and of high technology. One of the important characteristics is the growth of networking. Scale has taken second place to networking. Whereas the symbol of the industrial society was the large integrated steel mill, networking is the key feature of the post-industrial society. Productivity gains are to be found increasingly in the *system*, rather than in large-scale plant and equipment. Distributed data processing has become the model for organizational structure.

There is an increasing number of new linkages—for example, between the computer and the communications industry—transforming some of our largest corporations. AT & T and IBM, for example, are corporations that are becoming more and more similar as their activities interconnect more and overlap.

Joint venturing, world product mandates, "teaming" various distribution and production arrangements, are bringing together different corporations from all parts of the world.

The issue is not strictly one of technological advance and basic science, although that is a very important and crucial element. You may not have noticed, but February 1986 marks some very important anniversaries.

It is the 45th anniversary of the first programmable computer, the Electromagnetic Z3—invented not in America but in Germany by Conrad Zeuss. It is the 35th anniversary this year of the first commercially produced electronic computer, the F-1, invented again, not by IBM but by Ferranti in Manchester, England. It is the 25th anniversary of the videotape recorder, again not developed by a Japanese firm but by a quaintly named English company, the Nottingham Valve Company.

The reason I point this out is to underline the importance of developing worldwide linkages, marketing, and financial skills. The interconnection between these activities is crucial to this technological age.

Take financial markets. They are clearly international, money and credit having lost their national sovereignty. Not only is this trend creating new challenges for governments seeking to control the volatility of the foreign-exchange regime or to manage the process of credit creation. New financial instruments and services are also changing the very way business is carried out.

Next week's speaker will address the topic of the future of financial services and the revolution in financial services, so I will limit my comment to the remark that the financial service is probably the best example of how our post-industrial society is evolving: sophisticated networking, growing interdependence, high risks, yet a proliferation of different and also customised services.

This brings me to a second trend, which I will call the "post-assembly-line trend." Again, I am not suggesting that the age of the assembly line has disappeared, but, increasingly, people are seeking customised, personalised services. Corporations must produce high-volume goods and services, but at the same time have the flexibility of delivering customised products and personalised services.

For example, we are witnessing a trend that marketing experts call "ethnic demassification." Markets are now much more segmented, much more varied. People are looking for customised products.

This is a key point, since it is the private sector, not governments, which is the driving element as to whether a company will be internationally competitive in this post-industrial world. It's often believed that technology must stem from government support, from government defense procurement, for example, as is believed to be the case in the United States.

If we take the U.S. example, where it is often said that the defense industry is the engine behind high technology and new services, estimates in the U.S. vary widely as to the volume of purchases by the federal government of the total output of the semiconductor industry, for instance. But estimates very between five and eleven per cent—that is, no less than five per cent and no more than eleven per cent. This suggests that 90 per cent or more of the value of this semiconductor ingredient critical to the information sector flows into private channels. Although defense procurement may be critical for Research and Development, it is the buying public that shapes the industry and ultimately determines which company will succeed.

That is a very important point to bear in mind in the context of current discussions of R&D in Canada, where publicly funded R&D is a much greater share of R&D spending than is industrial R&D. More than in the U.S., much more than in Japan.

Until recently, the public debate in Canada has centred on issues of scale, notably short production runs and market size. Now, I believe, it is time that our vision expanded to tackle the challenges and proceds of networking, synergies, serendipities, and internationalisation of markets. That's what the post-industrial trend is all about.

Dealing with these challenges also implies a very clear commitment to the Information Age and to a third trend, which I would call "the Post-Gutenberg Trend." If one looks at how the information explosion has unfolded over the years, one finds four waves: the paper explosion, the electronic-information era, the Post-Gutenberg or the voice era, and the integrative era.

I think we are somewhere between the third and the fourth wave. Not that the written word is about to become obsolete, heaven forbid! In fact, I have a cartoon in my office, which shows two little boys. One of them, holding a book, says to the other:

"This is a book. It's old-fashioned software."

I hope we'll never reach that era, but information-related industries are big business. World sales are projected to reach $830 billion U.S. by 1990, double last year's figures. It is a very high-growth industry.

And, in this regard, I think the critical issue for Canada again is not one of trying to skew our tax systems towards the Information Age. I repeat, we must try to maintain as neutral a tax position as possible, but we must devote a great deal more attention to the expansion of our scientific base, and to the quality of education, and to the overall business climate that would allow the creation and growth of new businesses.

We must ask very tough questions about the quality of education, the evolution of higher education, the role of universities, the future of R&D in a highly competitive age. It is now widely believed that we in Canada are not producing a sufficient number of highly trained engineers and scientists in advanced information technologies.

Education expenditures are a very important component of provincial budgets, and they also account for a significant share of joint federal/provincial programs. It is time that we, as individuals and many of you as parents, ask whether our priorities are coherent and well established. It is time that influential lobbies develop to give more attention to the issue of quality of education. It's all the more important, given the fact that we are also moving towards what we would call the Post-Resource Age.

Again, I call upon you to be careful. I am not suggesting that resources will become unimportant, but that, in relative terms, resources may not provide the same comparative advantage that Canada has enjoyed in the past. We are going to face increasing competition: lower prices, more sources of supply, and, by definition, less bargaining power—at least to the end of this decade.

In the minerals sector, for example, excess capacity, competition from new materials such as plastics and new composites, and the rise of the service sector, which itself is a low-intensity consumer of raw materials and commodities, portend a relatively weak outlook even beyond this decade. Of course, as prices weaken, certain substitutes will become less competitive, but all in all the trend is towards intensified competition.

Regarding oil and gas, the question right now is: Where's the bottom? What will stop the slide? What will halt the slide, is, of course, cutbacks in production. Cutbacks in production usually occur when marginal costs—not average costs, but marginal costs—exceed the cost of oil, which means that we are talking about $10 to $12 per barrel as a floor price. We are not predicting $10 to $12 per barrel, but we are saying that that's the point where stripper wells, Alaskan oil, or Canadian tar sands could come off the market. If that happened, three to five million barrels per day could come off the market, which would indeed stop the slide. That's probably the floor price. But this really suggests that the oil glut will be around for some time, barring, of course, major political upheavals. Therefore, we will be living in a context of highly volatile world prices, which means that the Canadian oil and gas industry will also face very stiff competition.

Agriculture is another resource undergoing rapid change as a result of improved productivity, higher yields, and improved programmes in developing countries. For example, China, India and Indonesia achieved food self-sufficiency in 1985. Those trends, combined with biotechnologies, are making the agricultural sector a highly competitive one. World grain prices have fallen 25 per cent as a result of the recent U.S. farm bill. What we are seeing is quantum change in the agricultural sector, not just a cyclical problem.

In other words, although Canadians have had many inhibitions about being "hewers of wood and drawers of water," we may not even be able to be hewers of wood and drawers of water on our own terms in the future.

These trends must be considered in the context of a fifth trend, notably the Post-Government Trend. There is a growing perception that, while a stable macro-economic environment is necessary, governments cannot be relied upon to resolve all the problems that lie ahead. Just as the Post-Industrial era will include a high level of industrialism, the Post-Government Trend also includes a high degree of government intervention in everyday life.

But the mood of overwhelming support for government intervention, or of constant reliance on government for production or for protection against almost everything is waning. Skepticism and suspicion of government efficiency and effectiveness are now widespread, and capitalist acts between consenting adults are now once again fashionable. Our new constitution, with its Bill of Rights, is also likely to give rise to stronger assertions of individualism and questioning of many government actions and of decisions. But cutting back on government can be particularly divisive if we do not, as a country, agree on a shared perception of where we are going and agree on certain political principles.

Cutting spending and programs will be necessary. The budget deficit is a compelling issue, which cannot be solved strictly by increasing taxes.

Just to give you an idea of the problem, remember that 1974 was the last time that the budget was in surplus. In 1974, government revenue as a percentage of gross national product was 19.6 per cent; government spending as a percentage of GNP was 18.9 per cent. The next year, government revenue was 19.1 per cent, spending 21.5 per cent.

In 1980, revenue was 17 per cent of GNP, spending 20.5

per cent. In 1984, government revenue as a percentage of GNP was 18 per cent—you see, roughly the same ballpark figure—but government spending, which stood at 25.4 per cent of GNP, was significantly out of line.

In other words, the issue is more one of cutting spending that of increasing revenue. This raises a broad set of questions regarding the very future of the welfare state.

Never before in the postwar period has the welfare state come under such intense scrutiny. In actual fact, the welfare state has provided widespread prosperity, a deeper impression of justice, tolerance and security, as accompaniments to growth. That is a very important contribution.

But the perceived shift from a welfare to a redistributive state, from rising expectations to rising entitlements, has sparked demands for rethinking of the role of the state. In this sense, we are in a Post-Welfare-state period. This warrants much more protracted discussion than what we have witnessed in Canada.

A whole generation of youth and a horrifying contingent of unemployed are directly concerned, amongst others, about the outcome of this debate. Why? Because we have also entered what we call a Post-Full-Employment Age.

Not that full employment is no longer a laudable political goal, but all realistic forecasts portend unacceptable levels of unemployment for many years to come. Retraining has become, as a consequence, the latest buzzword.

But I come back to my remarks on education. We are focusing on retraining, but, I would argue, we are devoting insufficient attention to basic education. Sound basic eduction has been found, in many countries, to be one of the important elements in facilitating retraining in the future. Basic education, labour legislation, sectoral and regional mobility, mobility within companies, the effects of narrow and stringent job classifications, are many issues that we never really discuss.

There is a real danger that long-term unemployment and high levels of unemployment could create a permanent underclass. A recent *MacLean's* poll indicated that Canadians think of themselves as increasingly divided under class lines. I think that is a very worrisome trend for the future, and warrants much more reflection.

That brings us obviously to the question of consultation, consensus and collaboration between government, business and labour—again the latest fashion in the Canadian public policy debate. But, just as the role of government is being questioned, so is the role of our business community. It is often suggested that we are living in a Post-Rist-Taking Age in which professional managers with their stock options and their golden parachutes outnumber entrepreneurs.

It appears that a certain entrepreneurial spirit is being rekindled, as evidenced by the recent growth of new business and self employment. Many of these entrepreneurs are young. Many are female and many hold very different values than the typical—if there is a typical—corporate bureaucrat. How do we create an environment that allows more small and *new* businesses to develop?

I insist on the word "new." There seems to be a misconception that it is small and medium-sized businesses that create all the jobs. But, as pointed out by numerous Organization for Economic Cooperation and Development studies, the important feature is not that they are small and medium-sized. It is that they are *new* and growing. As these OECD studies suggest, we should make the distinction between established businesses and new firms, rather than between big or small.

By definition, new firms are gererally small, but it is the creation of new business, allowing rapid birth and death of new business, that creates momentum in an economy. And we do not have, in certain sectors, the kind of fluidity and flexibility that allows tremendous growth and turnover of new business. Our focus seems to be directed more towards protecting established concerns—small or big.

As to labour, we should ask ourselves whether we are in effect in a post-union society. Not that unions will disappear, but the growth of the service economy, self employment, new businesses, new forms of work, are all formidable challenges for unions as they are now managed.

I mentioned the search for customised services. Similarly, in the workplace, many people are looking for customised working agreements, profit sharing, flexibile hours and more personalised relationships with their employers. Unions are organised to deal with large homogeneous groups. I think the labour union must ask itself whether it can also provide some of the customised solutions that more and more workers will be seeking in the service economy.

I am not predicting the demise of unions. I think many areas are particularly ripe for union impact and the business community must give much attention to many of these issues. For example, occupational health and safety, particularly in regard to new functions and occupations associated with new technologies, will grow in importance. This can range from something as seemingly banal as the type of chair used by a person sitting in front of a video display terminal to as complicated an issue as new materials in toxic chemicals.

Women's equality is another area that is very ripe for union impact. So is wage determination with the introduction of new technology. Technology will change jobs and functions and tasks. This issue will be particularly acute in industries that are still regulated and not subject to market forces. Wide-ranging issues such as this one: does equipment substitute for a worker or does it complement a worker's job?

As many unions will argue, if the equipment is used by the management, it is said to enhance productivity and is an additional element or tool of work, whereas, in the lower echelons of the corporation, it is used to replace a worker. That is going to become an increasingly critical issue.

Financial opportunism also, especially where new technologies place individuals in a position to introduce costly disruptions—for example, the factory process-control technician—will give very much leverage to unions. We are likely to see a shift in many of the strategic interventions of unions in the future.

Going beyond the Canadian scene, I would argue that we are in what we call a Post-Santa Claus Period. Some of you might take offence with the fact that I associate Santa Claus with the U.S. Whether we like it or not, we have had a special relationship with the United States over the years.

As recently as last year, after Prime Minister Brian Mulroney's meeting with President Reagan in Quebec City, the Prime Minister was saying that, in the case of a protectionist push by the U.S. Congress, the President "would go to bat" for Canada. That is somewhat *de passé*.

We are seeking a closer trade relationship with the U.S. Our motivation should not be simply to counter protectionist threats in the U.S. Congress. Networking, internationalisation of production, competitiveness should be the driving forces behind our attempts to establish a closer relationship with the U.S.

But the U.S. is asking what Canada is willing to give up. We cannot think of our relationship with the United States as so special that we need not make sacrifices. We must put something attractive on the table. In every province, I have asked the same question.

Of course, one of the main barriers to an agreement is that no province or no industry wants to expose or lay out what it is willing to give up. For example, nontariff barriers are a critical issue, be they the Liquor Control Board of Ontario (LCBO), government procurement, regional grants, or even equalisation payments.

Industries and companies are increasingly linking up with nontariff barriers that pay a larger role in blocking these linkages. In the future, tariff barriers will be very low indeed as a result of the Tokyo Round, but we have hardly tackled the issue of nontariff barriers.

In regard to our relationship with the United States, much speculation also surrounds the structure of the North Atlantic

Treaty Organization (NATO), the development of out-of-area strategies, security, as well as development assistance to the Third World and East/West relations in general.

What role will Canada play in the context of evolving foreign policies of a great number of Western allies—Japan, and many members of the Third World? The quality of the debate on foreign policy in Canada is not particularly impressive.

And finally, perhaps one of the reasons we are having such difficulty tackling many of these questions is that we have entered what I would call a Post-Ideology Period. Not that Canada has been a particularly ideological country. However, many support systems or traditional support systems have more or less disappeared. The family, the school, religion, are playing a much weaker role in providing support or security to individuals who must deal with change.

Political ideology does not appear to be the answer either. Marxism is certainly not the answer, even in Western European countries where the dream of "the great evening" has dissipated. *Laissez faire* is a mode of action, not a mode of thought.

Increasingly, people are trying to fill the void through personal challenges—search for individual satisfaction, individual solutions, customised working arrangements, customised this, customised that. Life lived for oneself. The biggest question facing our modern societies is whether this is compatible with the pursuit of the common good.

Perhaps I have come full circle to the challenge of Adam Smith, who argued that the pursuit of self-interest, of course, was compatible with, and conducive to, the common good. But in 1776, communities were not ephemeral or transitory as they are today. However, a step in the right direction involves understanding the changes taking place around us, realising the commitments or the exigencies of the social and political economy that surrounds us.

And perhaps more than ever, in this period of weak political leadership—where leaders seem to want power but not know what to do with it once they have it—we must be more conscious than ever of the risks that accompany this search for individual solutions. The risks, and, of course, the opportunities.

I do not want to leave you on a moralising tone, but I know that I have not given you many tips on whether to buy or sell stock—although it certainly is time to take stock.

The appreciation of the audience was expressed by John MacNaughton, a distinguished Past President of The Empire Club.

Stanley M. Beck, Q.C.

Chairman, Ontario Securities Commission

REVOLUTION IN FINANCIAL SERVICES

February 20, 1986

The President
Harry T. Seymour, Chairman

Mr. Seymour

Mr. Minister, Reverend Sir, distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today Stanley Beck, Q.C., Chairman of The Ontario Securities Commission.

Those in the industry who know Stanley Beck say his skills as a listener and an administrator make him a natural for the job.

William Pidruchney, Chairman of The Alberta Securities Commission, says he is impressed with Beck's composure and his fluency with the issues.

Says Edward Waitzer, a lawyer with Stikeman Elliott:

"He's a good administrator, and has written some of the leading articles on shareholders' rights. . .His articles have influenced the law."

Henry Knowles, Ontario Securities Commission Chairman from 1980 to 1983, describes Beck as quietly thoughtful but very determined.

"He is his own man. . .He is an independent thinker. . . and there's no question he will bring a new direction and new thrust to the Commission."

Stanley Beck assumed the leadership of the country's most powerful securities regulator at a time of tremendous change within the so-called four pillars of the financial world: banks, trust companies, insurance firms and investment dealers.

The lines traditionally separating the pillars are blurring, as each moves into the other's business. That process is being sped along by new technology that allows capital to jump anywhere in the world at the push of a few computer keys.

Beck's regulatory shopping list includes: first, a thorough look at the amount of information contained in annual reports and other financial statements; and, second, the implementation of Peter Dey's paper on the ownership structure of the securities industry.

Meanwhile, the recommendations in the Dey Paper include opening the brokerage business to foreign investors by allowing non-residents to hold up to 30 per cent of a securities firm.

The findings of the Dey Paper have been attacked by the Securities Industry Capital Markets Committee, which says the recommendations could result in the Canadian industry being dominated by large United States firms.

Although our guest says he agrees with the general thrust of the paper, he is on the public record as saying he is willing to discuss modifications before pushing for legislation.

As well as developing a scenario for Ontario, the ownership legislation has to fit with the federal government's position and with the recommendations of Ontario's Dupre Committee, which reviewed the whole financial services industry in its November 1985 report.

As a champion of shareholders' rights, Beck has more detailed disclosure high on his list.

While interim and annual reports and timely disclosure statements record either what has happened, or what is about to happen, within hours or days, should not investors be informed of industry developments and trends that will affect a corporation's performance in the future? Beck says.

This form of disclosure is currently required by companies that are registered with The Securities and Exchange Commission in the United States. Financial analysts have expressed the opinion that this requirement is the single most useful thing that the S.E.C. has done in recent years.

After the thorough investigation now under way, The Ontario Securities Commission will ascertain whether it would be useful, in the context of requiring the best possible disclosure to our marketplace, to insert a similar provision in The Ontario Securities Act.

The challenge of disclosure of ownership then of rapidly growing international markets, multinational offerings, international over-the-counter trading, Eurobonds, Euroyens, and Euroequity markets, produces, as Beck has stated, the classic Canadian regulatory problem: How do you protect a small, sophisticated market in Canada and still go about "playing with the big boys" on the international markets?

Originally from Vancouver, Stanley Beck studied law at the University of British Columbia. His appointment as Chairman of The Ontario Securities Commission on May 1, 1985, followed an illustrious legal career that included teaching positions of increasing responsibility at the University of British Columbia, Queen's University and Osgoode Hall Law School, where he was Dean from 1977 through 1982.

Our guest, who plays a mean game of racquet sports, according to former Commission Chairman Peter Dey, and Stanley's wife Barbara, whom we are pleased to have with us today, live in Toronto with their two children, aged 13 and ten.

Ladies and gentlemen, it gives me great pleasure to introduce the overseer of the fourth-largest financial market in the world, Stanley Beck, who will address us on the subject "Revolution in Financial Services."

Stanley Beck

Exactly one week ago today, I was startled to read the following headline on the front page of the *Financial Times of London*:

New York Stock Exchange ruled out as London Stock Exchange regulator

If I was surprised at that headline, I can only assume that many in the London financial world must have choked on their morning tea as they read it. The internationalization of financial markets has truly proceeded at a remarkable pace. But the idea of the New York Stock Exchange as a regulator of the London Stock Exchange is not only an astonishing suggestion, but it provides some indication of the extent of the revolution that is taking place in world financial markets.

I use the term 'revolution' advisedly, for what is happening is not just a reorganization of financial markets, but is truly a fundamental change taking place, both within and across national borders. It is a revolution whose winds are being felt very strongly in this country, although the ultimate design of our financial markets remains unclear.

In typically Canadian fashion, we have commissioned a seemingly endless series of reports to diagnose and to prescribe. The result is a babble of conflicting advice, with both provincial and federal governments yet to take any significant action. But financial markets do not wait upon dithering governments, and the structure of the Canadian financial market continues to change in response to international forces from which we are not immune.

The Federal Green Paper spoke of the need for greater competition and the creation of "C" Banks. Since the publication of the Green Paper, three Canadian banks have disappeared from the scene, two through failure and one through merger, and the idea of the "C" Bank appears, mercifully, to be dead. What then of increased competition within the financial markets?

The Report of The Ontario Task Force on Financial Institutions, known after its chairman as the "Dupre Report," warned against concentration and the merger of large units, and the mix of commercial and financial institutions. Since the appearance of the Dupre Report, Canada's largest and fourth-largest trust companies, Canada Trust and Canada

Permanent Trust, have merged as a result of a take-over of Canada Trust by Genstar, a primarily non-financial conglomerate.

Genstar has also purchased a ten-per-cent interest in Gordon Capital Corporation, an investment dealer, and Gordon and Genstar have formed Gordon Investment Corporation to carry on merchant banking activities in the non-regulated segment of the securities industry. Gordon Investment thus joins Great Lakes Financial and Hees Corporation as major investment bankers dealing in the exempt market and controlled by commercial and financial entities.

The Dupre Report also was concerned about maintaining a degree of separation among the so-called four pillar—the banks, trust companies, insurance companies and securities dealers—and warned about the dangers of moving towards a German-style universal banking system. Yet while the Dupre Report was being written, the Toronto-Dominion Bank began sale, through its branches, of a TSE Index Based Mutual Fund, a service that will complement its TD Green Line Discount Brokerage operation. And the Royal Bank has recently announced that it, too, will enter discount brokerage operations.

At the same time, the Mutual Life Assurance Company of Canada has registered with the Ontario Securities Commission as a mutual-fund dealer and will be offering an in-house managed fund through its sales force. It will be the first insurance company to do so. In Quebec, the Desjardins and Laurentian Insurance groups have each, as a result of Quebec's liberalizing Bill 75, purchased an interest in a trust company and a securities dealer.

I do not want to suggest that Canadian governments, either provincial or federal, are powerless to deal with the forces of change in the financial industry. But I do want to suggest that those forces of change are rooted in international economic and electronic reality and that the changes that are taking place within our borders are mirrored in every developed Western economy.

Accordingly, I suggest that we need to lift our sights beyond what is happening within our own borders and look at the global financial marketplace. We need to ask what lessons might be learned before we embark on a restructuring that fails to take account of the global reality and leaves us with a regulatory structure ill suited to the best interests of Canadian issuers and investors.

Before dealing more particularly with the Canadian scene, let me return to my opening theme and outline briefly some of the major changes taking place internationally and suggest what they indicate for the Canadian capital market.

The New York Stock Exchange, as a regulator of The London Stock Exchange, arises from the fact that the doors of the United Kingdom financial markets have been thrown wide open. As of this coming October, international ownership of United Kingdom securities dealers and merchant banks will become the operating reality. The result will be a truly international market with the major international banks being the dominant force in the securities markets, with the likely survival of very few independent U.K. securities firms.

The idea of New York Stock Exchange regulation came from the suggestion that U.K. officials might be willing to accept New York Stock Exchange regulation and surveillance of its member firms dealing in the U.K. Although, as the *Financial Times* reported, that idea was "swiftly rejected" it *does* show the extent to which international trading has come to the securities markets.

In the same *Financial Times*, one reads about an agreement being reached between Reuters, an international news agency, and The London Stock Exchange to combine their competing electronic systems for displaying the share prices of leading international companies.

Reuters has some 53,000 terminals around the world. Initially, these terminals were used for information and later, currency trading. Now they are being broadened to include stocks and bonds. Reuters also owns 25 per cent of, and markets, Instinet, an American computerized screen-based trading system that offers both market information and automatic execution of trades up to 1,000 shares.

This is just a glimpse into the computerized networks that allow around-the-world trading of equities. In its May, 1985 issue, *Euromoney* lists 328 international equities that it defines as those having "active and liquid markets in at least one centre outside their home base." The equities include U.S., Canadian, Japanese, Australian, British and German issues.

Seven-day-a-week, twenty-four-hour-a-day global trading in the world's major equities will soon be a reality, and the trading will take place primarily through electronic networks. What then for national stock exchanges, and what role for national regulators? These are critical questions we are all beginning to face.

In addition to twenty-four-hour trading and the computerization of markets, another major area of change is the linkage of exchanges and here, The Toronto Stock Exchange has taken the lead. The first truly international exchange is the link between The Toronto Stock Exchange and The American Stock Exchange, whereby interlisted securities are traded as if on one market, with the trade moving to the best market. Quotes are shown in both currencies with the appropriate conversion, so that there is a true international market. The second link is soon to be opened between the TSE and The Midwest Stock Exchange, thus bringing many New York Stock Exchange-listed companies within the international market concept.

The New York and The London Stock Exchanges have a committee studying possible linkages, and NASDAQ and The London Stock Exchange have recently reached agreement on a two-year pilot program that will see each Exchange display price quotes on stocks listed on the other Exchange.

Allied to international trading markets is the increasing use of multinational offerings. Indeed, offerings by Alcan Aluminium and Bell Canada in 1983 are often referred to as the first truly international financings. The Bell Canada issue of some $250 million was offered simultaneously in Canada, the Unites States and the United Kingdom.

The biggest international offering by far, and the biggest equity offering in history, was the British Telecom offering of last year, when some $4.7 billion in equity was offered simultaneously in Canada, the United States, the United Kingdom and Japan.

Since the British Telecom offering, we have seen international offerings, some part of which have been placed in Canada, by Britoil and Cable & Wireless in the U.K., and by the Union Bank of Switzerland.

The most remarkable of all the international securities phenomena has been the growth of the Eurobond market over the past twenty years. New issues of Eurobonds in 1985 totalled some $134.4 billion. Canadian issuers, government and corporation, tapped the Euromarket for some $8.7 billion. Since 1981, there has been close to a 30-per-cent increase in the volume of Canadian financing in the Euromarket.

Perhaps the most startling fact of all is that, in the first half of 1985, U.S. companies raised more money overseas than they did in the domestic market.

Every day, a computer system in the New York Clearing House called, appropriately CHIPS, processes debits and credits of London Eurodollar trading in a volume approaching some $200 billion. In the words of Walter Wriston, the former head of Citibank:

"This market is not just more of the same: it is something new in the world. It has changed the world."

While debt is by far the most prominent part of the Euromarket, there is a rapidly growing Euroequity market. The internationalization of equities is becoming a reality some twenty years after the internationalization of bonds.

It is important to note that the Euromarket is essentially unregulated. It is a market that began as an alternative to regulated, domestic markets. Financial intermediaries, issuers and investors came together and did deals that suited their needs.

Efficient ways were found to do business that transcended national boundaries, the restrictions of national financial markets, and the rules of national regulation.

The latest development in the Eurobond market is the opening of a Euroyen market. Euroyen bonds are Yen bonds sold outside of Japan. As the Japanese Government makes it easier to finance in Yen in international markets, there is growing pressure to ease entry into the Japanese domestic market.

That pressure resulted last month in the admission of six foreign firms to membership on The Tokyo Stock Exchange for the thumping price of $5 million per seat. The six firms were Goldman Sachs, Merrily Lynch and Morgan Stanley from the United States, and Vickers DaCosta, S.G. Warburg and Jardine Fleming from the United Kingdom. It is perhaps worth noting, particularly in the Canadian context, that Vickers DaCosta, a major U.K. dealer, is wholly owned by Citibank of New York, the world's largest commercial bank.

Clearly, Tokyo is taking its place as the world's third great financial centre alongside London and New York, and the world's major issuers are seeking listings on The Tokyo Stock Exchange. Bell Enterprises was the first Canadian company to list on The Tokyo Exchange, followed within the past few months by the Toronto-Dominion Bank, and the Canadian Imperial Bank of Commerce recently has announced that it, too, will seek a listing.

In two days, this Saturday, five million common shares of Bell Enterprises will be offered in the Japanese market. The offering, the first primary offering of equity by a Canadian issuer in Japan, is expected to realize some $200 million.

Let me turn for a moment from structural developments to two developments in financial products and services that are equally revolutionary. I refer to the growing securitization of debt and the swap market in currency and interest rates.

Securitization is just a fancy word for the turning of loans into securities. Put simply, what is happening is that banks, rather than playing their traditional role of risk takers, are now placing the risk directly to investors through securitization of their loan portfolios. Of course, as bank assets are securitized, the traditional distinction between commercial banking and securities dealing becomes blurred.

The securitization phenomenon is a direct result of the information revolution. From 1964 to 1985, the real cost of processing information has declined by 98 per cent and the cost of transmitting information has declined by about 95 per cent. These cost reductions have been one of the major factors in causing financial institutions to reconfigure the services they offer to the public. It is the decline in information costs that has promoted the direct placement of risk.

Reduced information costs make it easier and cheaper for investors to assess the risk of, and return on, direct obligations of issuers. Lower costs also make it easier and cheaper for these obligations to be subdivided into pieces small enough to enhance the diversification of even relatively small portfolios.

Let me give some recent examples of securitization. The prime example of securitization is the American mortgage market, but the trend is spreading to other kinds of loans and to other marketplaces. The first issue in the Euromarket of bonds backed by commercial real estate was an offering by Olympia & York Developments Limited of some $200 million of bonds this past November. The bonds were backed by a first mortgage and the assignment of long-term leases on a Lower Manhattan office building.

What is happening is that developers are, in effect, turning their buildings into bonds. The reason is that the capital markets provide a cheaper and more easily accessible source of financing than conventional mortgages, particularly for very large buildings. The story in the *Economist* on the

Olympia & York placement pointed out that the cost to an issuer on a double-A-rated bond backed by real estate could be $1\frac{1}{4}$ to $1\frac{1}{2}$ percentage points lower than on a conventional commercial mortgage.

Another much noted example of securitization is the packaging of automobile loans and the issuing of securities backed by such loans. The potential for that market in the United States can be appreciated when it is realized that there is some $168 billion of outstanding car loans. Investors are eager to pick up securities backed by such loans where annual losses run at a mere 0.5 per cent.

As I have noted, as the trend towards securitization continues, and it is clearly going to do so, the line between commercial banking and securities dealing becomes even thinner.

The most significant development in services is the rise of interest rate and currency swaps. A swap is simply a way to exchange one kind of interest obligation, or one currency, for another. An interest rate swap, for instance, involves changing the nature of interest payments from fixed rate to floating rate, or vice versa. In the simplest case, two borrowers agree to swap the interest payments on identical amounts of debt to their mutual advantage. The principal does not change hands. There are many variations of an interest rate swap, but the advantages are cheaper, more flexible financing.

The seap market, approximately six years old, is estimated to have grown into a $200-billion business. As noted, the advantages to swaps are cost effectiveness and flexibility, with the swaps being accomplished without buying or selling existing assets or liabilities.

Given the volatility of interest rates and currency fluctuations, one can appreciate the reason for the rapid growth of the swap market, and the major role that swap markets now play in commercial finance. It is interesting to note that in Canada, the largest player in the swap market is not an investment dealer or one of the Big Six Canadian banks, but is Citibank Canada, which has an estimated 25 per cent of the $3-$4 billion Canadian market.

So much for the description of the revolution in the financial markets. What lessons are there for the restructuring of the Canadian financial markets? My own area of responsibility is the securities markets. The Ontario Securities Commission, in its February, 1985 Report to the Government on Entry into and Ownership of Ontario Securities Industry, recommended major changes with respect to allowable limits of foreign ownership of Ontario securities dealers and allowable limits of ownership by Canadian financial institutions, that is, banks, trust companies and insurance companies.

The main recommendations of the Report were:

1. Non-residents, individually or in the aggregate, would be allowed to own up to 30 per cent of a registered dealer.
2. Financial institutions would similarly be allowed to own up to 30 per cent of a registered dealer.
3. Resident investors, other than a financial institution, would be allowed to own up to 49 per cent of a registered dealer.
4. A new class of registration, foreign dealer, would be created. A foreign dealer could be 100-per-cent owned by a non-resident. A limit of 30 per cent of the total capital employed in the securities industry would be placed in the aggregate amount of capital that would be permissible for foreign dealer registrants. An individual limit on any one dealer would be set at 1.5 per cent of the total capital of the industry. As the total capital of the industry was estimated at $1 billion, there would therefore be a $15-million limit on the capital of any one foreign dealer registrant.

In formulating its proposals, the OSC identified two primary public policy concerns whose importance necessitated some pulling back from a totally free market approach, and further necessitated the imposition of some competitive restrictions. The two overriding public policy concerns were:

- Ownership of the securities industry must remain substantially Canadian.
- The Canadian financial system should remain segregated

according to function, the so-called "four pillars" principle.

The recommendations contained in the OSC Report are intended to encourage, as far as possible, the development of efficient and competitive markets while preserving the two public policies. It is my firm belief that the OSC recommendations do that, and are minimum required to ensure that the Canadian industry is properly positioned to be a world player while, at the same time, offering the most efficient service to the Canadian investment community. Failure to keep up with innovations in other markets, in terms of regulatory structure as well as in products and services offered, introduces a significant risk.

One of the ways that economists measure what they refer to as the "vitality factor" is to determine how well a particular market is keeping up with its competitors. In this case, with the other financial centres around the world. Because one of the clear trends is toward increasing openness to foreign entry and ownership in every major market in the world, it can be expected that opening the Ontario industry will maintain its vitality relative to other markets.

Intermediaries will locate where business is found. If an advantage can be gained in another market, whether it is Montreal, New York or London, trading activity will move. The relative attractiveness of markets inevitably will affect their relative vitality over time.

The most important question facing the Ontario Government in the debate over foreign entry is one that has no empirical answer: If other markets are open to the international marketplace but Toronto is not, will that difference give rise to a competitive disadvantage for Toronto-based dealers?

The answer could be yes for two reasons. First, a protected market tends to be less vital, because fewer major players are present. Second, restricted entry could reduce access to capital, which would hamper Toronto-based dealers as they compete in the increasingly capital-intensive securities industry, especially for the business of large institutions engaged in international investment activities.

It is my opinion, and the opinion of my fellow Commissioners, that the risk to the Toronto-based industry, and to Canadian issuers and investors, of not opening the Canadian industry to significant foreign and domestic investment is substantial, and that the reality of international financial markets and global trading demands the kind of carefully staged opening outlined in the OSC Report.

Certainly there are risks, and the entry of major American, U.K. and Japanese investment banks into the domestic market, as well as the entry of our own major financial institutions on a limited basis, is bound to change the nature of that market and is likely to change the makeup of our major investment dealers.

The risk of standing still, while dramatic change is taking place around us, is an even greater risk. What is at stake is Toronto's place as a major capital market at the very top of the second rank, just beneath the New York-London-Tokyo axis. The Government of Ontario has before it the OSC Report and the Dupre Report, which is more cautious than the OSC Report and asks the Ontario Government to assess very carefully the risk to the maintenance of a substantially Canadian industry.

I do not know what the decision of the Ontario Government is to be, but I have urged the Government to make a decision within the next few months as, in my view, delay would be injurious to all of the interested parties. Foreign dealers wish to enter this market and domestic financial institutions want to know what the rules are to be, so that they might plan accordingly. Domestic dealers similarly want to put the matter of industry structure behind them and get on with their primary business, whatever the rules are going to be.

The worst possible scenario, in my view, would be to adopt the view advocated by the Dupre Report and leave the entire matter to be negotiated as part of the services aspect of free trade negotiations. That suggestion would have the double disadvantage of postponing the decision for as much as three to five years, and would take the decision-making power out of the hands of the Ontario Government and put it in the hands of the Federal Government which, whatever the outcome of current Federal/Provincial negotiations, will have the lead hand in the free trade negotiations.

Finally, let me turn to the OSC Report, the Dupre Report and the Federal Green Paper as they deal with the entry of Canadian financial institutions into the securities industry.

Part of the scenario of global financial markets that I have outlined indicates the need for world-scale units. The entry of Canadian financial institutions into the securities industry, along with the capital that will be supplied by limited foreign entry, gives the best chance of world-scale Canadian firms. I appreciate that this raises the spectre of concentration in the Canadian financial industry, but I think we have to pause to consider what our concern with such concentration is.

First, concentration has been a part of Canadian economic reality since Confederation. The size of our country and the thinness of our population and markets has always meant, and means today, that we require a small number of large-size economic units. The five major Canadian banks have always formed a major concentration of economic power, a concentration not the least lessened by widely held ownership, notwithstanding the banks' protestations to the contrary. It is a very naïve view of power to suggest that a major economic institution is any the less powerful for being widely held, as opposed to being closely held. The nature of the economic, political and social power is exactly the same, although the seat of the power is easier to identify if the institution is closely held. The important point is that the nature of the power is essentially the same, whether the institution is closely or widely held.

I agree that there is a good deal to be said for widely held companies, particularly in the financial sector, in terms of openness and accountability. In the current Canadian context it is, in my opinion, both politically possible and feasible, for closely held holding companies and/or their subsidiaries, to be required to sell at least a 35 per cent equity position to the public over the next three to five years.

Such a requirement, combined with sensitive rules with respect to self-dealing, independent audit committees, appointment and rotation of auditors and increased disclosure, would go a long way towards meeting the objections to the current control of financial conglomerates. The public would support such moves; what is lacking is political will.

If the six major banks, along with the very competitive "B" Banks, plus the five major trust companies and, say, five major insurance companies, were allowed to compete in the financial markets, although not necessarily to deal in each other's core function, then I suggest that we would have as competitive a financial sector as any country in the developed world. And, if those same institutions are allowed, in a limited way, into the securities industry, it can only lead to healthy innovation, greater access to capital and a more competitive environment.

In my view, that would be to the great advantage of Canadian capital markets, Canadian issuers and Canadian investors. Certainly such a scenario will bring change, and change always brings a certain amount of upset. But the reality, as I have tried to outline it, is not one simply of change, but of revolution in world financial markets. What is at stake is the positioning of our financial institutions to take their rightful place as major players in those markets.

Canada has been extremely well served by its capital markets, and the immediate challenge is to so position the players in those markets that we can be as well served in the future as we have been in the past.

The appreciation of the audience was expressed by Bredin Stapells, Q.C., a distinguised Past President of The Empire Club.

The Hon. James Kelleher, P.C., M.P.

Minister for International Trade

TRADE: CANADA'S LIFEBLOOD

February 27, 1986

The President
Harry T. Seymour, Chairman

Mr. Seymour

Mr. Minister, Mr. Consul General, Reverend Sir, distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today the Hon. James Kelleher, P.C., M.P., Minister for International Trade.

A few weeks ago, when Ontario Premier David Peterson called James Kelleher a Rambo, the fictitious gunslinging ideologue much admired by President Ronald Reagan, you had to suspect that Canada's freer trade debate was moving to the centre of the political stage.

Indeed, Finance Minister Michael Wilson confirmed this fact in his Budget address in the House of Commons yesterday afternoon, when he made considerable reference to the whole issue of freer trade and the consideration given to that initiative in the preparation of the budget.

It has been said that "the greatest weakness of the Mulroney Government has been a timid failure of leadership, an unwillingness to take bold and positive new initiatives, and to defend them in the face of criticism from the Opposition parties, which were so decisively rejected in the last federal election."

Freer trade with the U.S. could be that bold and positive new initiative the Government has been waiting to promote.

Liberal and New Democratic Party spokesmen are critical, but there appears to be little substance to their opposition.

The Globe and Mail editorial of Wednesday, February 26, entitled "Free Trade Opinions" focussed on the dilemma Premier Peterson faces. Last fall, the Ontario Government released two studies on the likely impact of a bilateral free trade agreement with the United States on Ontario's economy. Both concluded that, on balance, free trade would be good for Ontario. Last week, Ontario's Select Committee on Economic Affairs, which is examining free trade at the request of David Peterson, released three more reports, and again the conclusions are positive.

Professor R.G. Harris of Queen's University, Kingston, Ont., in his report entitled "The Adjustment of the Ontario Economy to a Canada-U.S. Free Trade Arrangement," observes that "as the real-income gains accrue largely in the manufacturing sector, Ontario has the most to gain from a Canada-U.S. free trade arrangement, and the most to lose should trading relations between Canada and the U.S. deteriorate."

Who has been given the formidable task of selling this initiative to Canadians and all our significant trading partners? The Hon. James Kelleher.

Returning to his hometown from Osgood Hall, Kelleher worked his way up as a corporate labour lawyer, eventually opening his own prestigious firm. In addition to his law practice, he found the time to accept directorships on a number of big company boards.

Clarence Dungey, a labour negotiator for the Canadian Union of Public Employees in Sault Ste. Marie, said of Kelleher:

"We had a grudging respect. . .I found James Kelleher to be a fair person, hard-nosed when he wanted to be. He knew when to give in and when to fight."

Ladies and gentlemen, it gives me great pleasure to introduce the Hon. James Kelleher, P.C., M.P., who will address us on the subject "Trade: Canada's Lifeblood."

James Kelleher

I am genuinely delighted to have this opportunity to speak with you about yesterday's Budget, and the role it plays within the broad and focussed plan for economic renewal and national reconciliation that has been our Government's mission since September 4, 1984.

I would also like to talk to you about our Government's commitment to restore the economic vitality in our country. And as you know, one of the most important instruments at hand is expanding our international trade.

But, first, the Budget.

Yesterday my colleague, the Minister of Finance, helped move this country one significant step farther along the road towards the kind of economic renewal and prosperity to which our administration committed itself within two months of the election victory of September '84. Last night's budget is a clear beacon to all those who believe that economic growth, rather than runaway public spending and deficits, holds the key to the continued financing of social programmes in our society.

The message conveyed by the Minister of Finance yesterday was as simple as it was serious: Canadians can no longer afford to finance their public services along the lines pursued by the previous administrations.

As recent events in the international money markets clearly demonstrated, the deficits compiled by the Federal Government in the past two decades constitute a real and considerable threat to the economic well-being of our country and of our fellow citizens. The Government of which I am proud to be a part has begun the long-overdue process of coming to grips with this legacy of waste and irresponsibility compiled by our predecessors.

When we came to office, the Prime Minister undertook to cut the deficit, reduce Government spending, and boost the level of employment in Canada. In the past 16 months, we have delivered on those pledges. We held the deficit for last year to our stated objective. We initiated a number of measures resulting in reductions in public expenditures and we saw the creation of 580,000 new jobs during this same period. In short, we told the people of Canada what we would endeavour to accomplish, and, unlike previous Governments in this regard, we did what we said we would do.

Yesterday, the Minister of Finance continued this process of informing Canadians on the state of our public indebtedness. Quite simply, Canadians are being asked to help in financing their way out of an extremely serious situation produced by former administrations. The budget proposes one of the most significant programmes of expenditure control ever undertaken by the Government of Canada. It initiates considerable reform of the taxation system and plans a 14 per cent reduction in the current deficit. That deficit will be under the $30-billion figure.

From the perspective of my own portfolio, that of International Trade, the return to a sound fiscal environment, reform of the corporate income tax and the promotion of competitiveness and efficiency, will assist us in meeting our objectives in the international marketplace.

And even though the restoration of fiscal responsibility in Canada is a priority concern of the Budget, it must be noted that a number of progressive and beneficial programmes were also unveiled by the Minister of Finance. These measures include the refundable sales tax credit, the advanced payment of the child tax credit, the Farm Financial Assistance Policy, the Programme for Older Worker Adjustment, a programme to help social-assistance recipients find employment, increased funding for cultural, R&D and job-training programmes.

The measures contained in the Budget are also a beacon to those doing business in this country and those who wish to do business with this country that Canadians are determined to put their own economic house in order.

It is a clear statement that we intend to moderate our collective debt load in this country. In this way, we intend to free up funds that might otherwise be lost in debt servicing—

and the taxes essential to produce that servicing—for economic growth, job creation, social programmes and legitimate private-sector investment.

This is a Budget of courage and commitment. However, we as a government are confident it will be successful because we know that Canadians have the resolution and courage to make those tough decisions that make Canada a stronger and more dynamic country.

I stand before you today, in the context of the great traditions and history of this Empire Club, and cannot but reflect on where we would be as a nation if we had not had the courage in the past to seek changes in our international economic standing based upon a confirmed and resolute confidence in ourselves.

Let us remember that before the term "empire" meant anything else, it often meant 'trading empire.' My belief is that the future of Canada rests on becoming the Number One trading empire of the 21st Century. Therefore, my Government is moving with the same kind of boldness that allowed the British Empire to contribute mightily to the civilisation of the world. One doesn't proceed to build a trading empire today by sending out bands of Gentlemen Adventurers (or "Gentleperson" Adventurers). Free discussion has replaced freebootery; skilled negotiation must replace the skill at arms that formerly won trading empires.

This Government is convinced that Canadians can take on the world confidently and successfully, if they are supported by the proper framework of Government policies. We think that our policies achieve that objective, particularly the major initiatives we have undertaken on the trade policy front.

Let me now describe our Government's approach to trade. To begin with, I will outline our trade-policy objectives.

First, we must create the conditions for a strong, internationally competitive Canadian economy where investment, incomes, and jobs will steadily increase. Second, we must develop a competitive economy within a system of internationally agreed-upon rules and accepted codes of behaviour.

Our exports must be both expanded and secured if we are to enjoy the growth and prosperity that Canadians expect. Our access to markets must be expanded, to give our exporters of goods and services the means to improve their competitiveness as the Europeans did in forming the European Economic Community a quarter-century ago. And our markets must be secured as well to protect the access that we have already successfully achieved from the new forms of protectionism that could cost Canadians jobs. It is that simple.

We will achieve these objectives by negotiating better and more open access to markets in other countries in return for improved access to ours. We shall also do so by agreeing collectively, as sovereign nations, to put into place arrangements to bind the behaviour of each and every one of us. In so doing, we shall all stand to gain, as we shall create a more stable, predictable environment in which investors, traders and consumers will have confidence that what is done today will not be undone tomorrow, next month, next year, or three years from now.

To achieve this, as you know, the Government of Canada is simultaneously undertaking an unprecedented set of two major trade negotiations. We are preparing to enter into negotiations with our principal trading partner, the United States, for the purpose of substantially freeing up the restraints on international trade that still exist between us. At the same time, we are actively preparing—in conjunction with our trading partners around the world—for a major new round of global trade talks to further liberalise international trade and to improve, collectively, our respective trading practices.

More precisely, we are pursuing a bilateral approach to achieving our trade-policy objectives with the United States while simultaneously pursuing a multilateral approach to achieve our objectives with all our trading partners. As the Macdonald Commission, among others, pointed out in coming to precisely the same conclusion, these are not contradictory approaches: they are consistent and will be mutually reinforcing.

Let me explain why. Our bilateral initiative with the United States will, of course, involve our seeking the greatest benefit for Canada. To attain this, we will be negotiating on issues such as further tariff reductions between our two countries, less rigid government purchasing practices by both federal and provincial/state authorities, better understandings on the use of subsidies and countervailing duties, and improved arrangements with respect to the rapidly expanding services area.

However, our relationship with the United States also gives us very severe problems which no one, least of all those of us in this Government, underestimates. Throughout this set of trade negotiations, we shall be balancing the opportunities that we see for Canadians, for all our regions, for all sectors, against the costs. If it's not a good deal for *all* of Canada, then there will be no deal.

While undertaking this major bilateral initiative with our large neighbour, this Government has been in the forefront of those nations pushing for a new round of global trade talks. These are now approaching rapidly. The multilateral trading system, in which the majority of countries around the world agree to certain disciplines and rules over their own trading behaviour in exchange for similar behaviour on the part of other, is the cornerstone of Canada's trade policy. It has been so in the past, and will continue to be so in the future.

Our challenge, as Canadians and as a major trading country, is to ensure that enough countries remain committed to the open trade system so that our export opportunities in those areas of the world where we trade, or where we wish to trade, are secured and expanded. We also want to have a say about when and what trade issues are discussed and what the ultimate rules that will govern our trading relationships with others, and theirs with us, will be.

Our trade-negotiations strategy for both the bilateral and multilateral talks is to get our objectives right, to assess what foreign barriers to our trade exist, and in what order we should attack them, and to decide over the next months and years when and how and in what forum to negotiate each issue.

That is why, in terms of the Canada/U.S. initiative, we have an absolute necessity to tie down our Number One customer first. Secondly, by moving now as we have done, there is sufficient time for thorough negotiation with the U.S. and detailed discussion at home throughout the process.

Continuing to manage this process well requires close, continuing, and intensive consultation with the provinces, the private sector and labour. I and other Ministers in this Government will be spending a great deal of time on this, since it is a process in which we firmly and very deeply believe. We accept the notion that Canadians are partners in this enterprise together. We are building the foundations of an economically renewed Canada into the next century and we want to do it together.

We will be seeking to maximise Canada's advantage without harming the interests of our trading partners. We have assured our GATT partners together and individually that Canada will adhere scrupulously to our international obligations. It will also mean that we will be sensitive to the trade interest of all our trading partners.

Our overriding purpose will be to maximise the growth of trade with all countries. A strengthened, more efficient Canadian economy will help us achieve our longer-term economic and social goals as Canadians. As the member states of the European Community found as they liberalised trade barriers among themselves, we shall be able to participate in more markets, with a larger production of goods and services, and with more effectiveness than ever before.

Success in securing a new trade arrangement with the United States will help us in penetrating other markets as these countries become even more interested in our market. Our trade dependence on the United States might even diminish in the longer term, as Ireland found out with respect to its trade with the United Kingdom following its entry into the European Community.

Investors and others will also find Canada a more attractive place with which to trade and invest, as we create a more efficient economy with higher incomes. Our interests and our claims will be taken even more seriously in the councils of the world and in corporate boardrooms. A new perspective and dynamism will be brought to bear on Canadians, and others, deciding to invest and to build in our country.

The Canadian people will judge us on the new opportunities that we obtain for Canada. We will expect the Opposition to focus on the benefits for Canada and not exclusively on the costs for Canada. There will be problems, we will recognize them, and we will deal with them sensitively, honestly, and openly. But this is not the time to focus only on the potential obstacles. It is a time to move forward confidently and with vision.

The next century belongs to Canada. Canadians collectively will face a much better future, one in which it will be possible to prosper and grow, if we are successful in our goal to become the Number One trading nation. The stakes are high, and we need the support of all Canadians, wherever they live and whatever they do. We need your continuing input throughout the challenging and intensive process that lies ahead. We need that sense of adventure that builds empires.

The appreciation of the audience was expressed by John D. Herrick, a Director of The Club.

J. Peter Grace
Chairman, President Reagan's
Private Sector Survey on Cost Control

BURNING MONEY

March 3, 1986

At a meeting held jointly by
The Canadian Club of Toronto
and
The Empire Club of Canada
Co-Chairmen
James B. Pitblado
President, The Canadian Club of Toronto
and
Harry T. Seymour
President, The Empire Club of Canada

Mr. Pitblado

Today you and I are privileged to meet and hear from a man who is a legend in business, governmental, and community circles in the United States. J. Peter Grace is Chairman and Chief Executive Officer of W.R. Grace & Co., a New York-based corporation with more than $7 billion in worldwide sales, primarily in chemicals, natural resources and consumer-oriented businesses. He has held the position of CEO of W.R. Grace & Co. for 40 years, the longest tenure for a CEO of any major U.S. industrial concern.

Throughout his business carreer, he has maintained an active and continuing interest in public affairs. In the 1950s, he served five years as a personal advisor to President Eisenhower on Latin America. In the 1960s, he served President John F. Kennedy as Chairman of a Commerce Department committee promoting U.S. private investment in Latin

America under Kennedy's Alliance for Progress. In the 1970s, he spearheaded a campaign that helped enact the landmark 1978 law reducing capital gains tax.

And then, in February 1982, President Reagan asked him to head a commission of business executives to study the government, and to recommend ways to cut and control government expenditures. Peter Grace had no hesitation in accepting the President's request. Notwithstanding the fact he is quick to acknowledge that he is a registered Democrat.

Within a few months, Grace had lined up 160 of America's top business leaders to join him in this monumental effort, which was staffed by more than 2,000 private-sector volunteers. All in all, over $78 million of money, manpower and material was contributed to the project by the private sector, with not one cent coming from the government.

Nearly two years later, in January of 1984, the Grace Commission published its findings: 2,478 specific recommendations on how to save $424 billion over a three-year period.

In the meantime, Grace wrote a book entitled "Burning Money: The Waste of Your Tax Dollars," which was released last October. In this book, Grace presents his personal account of the Commision's work, and he exposes in detail the waste, mismanagement, and inefficiency that he says go on every day in government. Let me quote one of the early passages from this startling and no-nonsense book.

> "I am absolutely appaled at what we found. In searching out government inefficiency, we found literally tens of billions of dollars of immediate savings that could be made without cutting back a single needed program.
>
> "All the government needs to do in most cases is to adopt commonsense business-management practices that every company must use, from the corner drugstore on up to General Motors, if it is to succeed."

Since the release of his report, Peter Grace has waged a one-man crusade against government waste and inefficiency. He is on the road some 200 days a year and, in the past two years, has made more than 200 speeches in his attempt to mobilize public opinion in support of the recommendations of his commission.

In March 1985, when I invited Grace to address our club, little did I realize that the date would be in the immediate aftermath of a Canadian federal budget, which had as its central theme control of government spending and the deficit, and immediately prior to Finance Minister Michael Wilson's appearance before us on Thursday of this week. The timing is, therefore, particularly fortunate, since I believe regaining control of unchecked government spending is the most urgent priority facing both our countries.

Ladies and gentlemen, please extend a warm welcome to the Chairman and Chief Executive Officer of W.R. Grace & Co., J. Peter Grace.

Peter Grace

Thank you very much Jim. It's sure nice to be back in Maple Leaf Country. I used to play in the Toronto Maple Leaf Gardens. I cannot say that I distinguished myself, because I was a goalie and my nickname was Red Light. I had a lot of fun and you people have a lot of fun. It would be good if you had a good hockey team again in the eastern part of Canada. I feel sorry about the troubles you're having with the West.

I appreciate your saying, Jim, that the study we did didn't cost the U.S. federal government any money. It cost private donors $78 million U.S. But if you listen to (consumers advocate) Ralph Nader, he goes around telling everybody that this study cost the government a lot of money because all these big corporations that pay for these studies can deduct it from their income tax so the federal government paid half the cost of the study. Well, that's an interesting theory, and you might think about it during the rest of the working week here, and that is: Who owns your pre-tax income—you or the government? Because, according to Ralph Nader, the government owns your pre-tax income and is being nice when it lets you deduct contributions to the government study on inefficiency and waste. I know there was a recent submission by your Minister of Finance (the Hon. Michael Wilson) and you're planning to have some increased taxes up here. I'm surprised, because the last time I talked to (Prime Minister) Brian Mulroney—he's a terrific guy in my opinion—he wasn't talking taxes. We still have President Reagan, who's opposed to increasing taxes. He wants to get the government off the back of the American people, and he is entirely right, because we've been raising, in the United States, about nineteen per cent of gross national product in income taxes for about fifteen years. The only reason we're in a deficit is that the expenses, as a percent of gross national product, have gone from nineteen and a half per cent to twenty-five per cent, so that's what has caused the deficit. So the thing to do, of course, is to bring the expenses back down to the nineteen and a half to twenty per cent range, and we'll be all right. That's what President Reagan is trying to do.

Now I don't know how many liberal newspapers you have up in Canada, or whether you listen to some of our media broadcasting up here, but they'll tell you that President Reagan is raising the defense budget too much. But I looked at those figures when we went down to Washington and President Eisenhower spent ten point two per cent of gross national product on the military and President Kennedy spent nine point four per cent and now we have this hip-shootin' cowboy from California, movie star, he's spending seven per cent and yet they're calling him "Hip-shootin" and say he's spending too much on defense. Russia spends between twelve and fifteen per cent and they spend ten per cent of the cost of the personnel that the Western World spends. In other words, they pay the soldiers including the ones that are carpet-bombing down in Afghanistan, about ten per cent of what we pay our soldiers. So personnel costs are a fairly high part of our total defense budget of around three hundred billion dollars. The procurement, the weapon systems are only about sixty billion dollars of the total three hundred billion dollars. As a matter of fact, at the first meeting I had with President Reagan, he said to me: "Hey, you know there's massive waste in the Defense Department. I want you to get it like a hungry bloodhound." He said, "There's fourteen weapon systems that I've identified that we need to play catch-up ball with the Russians." And he said, "I don't want you touching those fourteen weapon systems." I told him that I didn't even take *Popular Mechanics* when I was in high school. So he said, "Well, I picked the right guy, then."

The President is a terrific guy, by the way. I think Brian is a terrific guy and so is Ronald Reagan. They're both super guys. We're lucky we have fine, decent men running our nations—people who have really a heart and a soul and warmth of personality. Ronald Reagan said to me: "You know, when I was Governor out in California, they had more federal employees than I had state employees. They were all over the state, many more than I had. I couldn't imagine what they were all doing out here. But it was none of my business; I was only Governor. Now I'm President, and I still don't know what all these people are doing in California working for the federal government. So will you find out for me where all these people are, what they're doing, and what it's all about."

So I said of course, that I would get back right away.

They gave me an office in the executive office building right under the Office of Management and Budget (O.M.B.) and they said, "You just run up two flights of stairs any time you want to know anything." But they didn't have very much information at all; as a matter of fact, they've got 332 incompatible accounting systems in our government, so you can't compare anything to anything else. They do that purposely, so that everybody is confused. Anyway, we also have 319 incompatible payroll systems. As a matter of fact, when I went up to the O.M.B. and asked them about the personnel in California, where they were and what they were doing, they said, "We don't have that." I said, "Listen, you'd better get it. The President asked me for it and, if you don't give it to me in one week, I'm going to have a press conference and I'm going to announce that there are 2.75 million civil servants, their payroll is sixty-two billion dollars a year, they all get indexed pension at age fifty-five, their pensions are three times as generous as what we give in the private sector, you don't book it, it's five hundred and fifty billion dollars of unfunded past service liabilities. If you booked the pension, it'd be another fifty billion dollars a year and that would be a total of one hundred and twelve billion dollars a year in payroll costs. And you don't know what anybody's doing or who you've got on the payroll! They said, "You wouldn't do that." I said, "That's what I'm going to do if you don't give it to me."

So they gave me a big computer run a week later, as long as your arm, showing all the employees in every state, every foreign country. I said, "But that doesn't answer the President's question of where are all these people working."

By that time, I'd found out that the government employees occupied 2.61 billion square feet of office space, which is all of the office space in the ten largest cities in the United States, times four. But they don't know who is in that space. We do know that it costs triple the per-square-foot cost of the insurance companies—Equitable, Prudential and Metropolitan. They figured out the costs of that space—to run it, etc.—and it costs three times as much per square foot. But there's no way you can find out this information, so I go over to see Ed Meese, who was the President's Domestic Assistant and now he's Attorney General. They put him up for Attorney General. We had some Senator from, I think it was Ohio, his name was Metzenbaum, and he was trying to prove that Ed Meese was a crook, but he didn't get anywhere. Now Ed is Attorney General. So I told Mr. Meese: "Hey, Ed, remember the California employees and all that? All I can get is this."

He put his arm around me and said, "Now, Peter, you've got the whole government to study. We'll get that in the White House. We have that somewhere, where all these people are."

Now, I talked to Washington about 11 a.m. today and they still haven't got the information. There's no way that you can get it, because there's no way that anybody has ever gotten the facts that they need.

Data—they've got data enough to fill this room, and the entire hotel. But meaningful information? No way! They don't have it. And that's all due to Congress. They have seventeen thousand four hundred computers in Washington, and twelve thousand four hundred of them are obsolete. That's why no computers are interfaced: so you can't get any information. You can't get where anything goes. We've got one hundred and forty-three billion dollars worth of inventory in the defense department; they can't control it, they don't know what they have, what they don't have. And, furthermore, the procurement is such that we're buying the wrong things because they don't have proper inventory control. In addition to that, we're buying hammers that would normally cost seven and a half dollars at a hardware store, and paying three hundred and forty-six dollars; ninety-one dollars for two cent screws; and we're paying six hundred seventy-eight for a toilet seat cover. When we found that out, we rushed over to the Defense Department.

"Hey, this is ridiculous - six hundred seventy-eight dollars for a toilet seat cover!"

You know what they said to us?:

"The trouble is, the Secretary hasn't taken a position on them yet."

Well, anyway, the problem is Congress. We've got two parties down in the U.S. you know. One is Republican and one is Democrat. We've got a majority in the Senate of Republicans, and a majority of Democrats in the House of Representatives. It makes for a lot of confusion. Tip O'Neill is the Speaker; he's a Democrat. And, by the way, President Reagan is a health nut. He gets his exercise by running around Tip O'Neill three times every day. The Senate majority leader is Bob Dole: he's a Senator from Kansas. He led the Anzio beach invasion in World War II. He was talking about Congress the other day and I put down what he said. He said, "If you're hanging around Washington with nothing to do and the zoo is closed, come on over to the Senate. You'll get the same kind of feeling and you won't have to pay. You'll watch all these speeches being made and nothing getting done at all, and you think, 'Where am I? I can't believe this.' But don't worry about it. If there aren't many people down there on the floor, you're lucky, because you can't do business without a quorum. As long as there are only three to four people on the floor, the country is in good hands. It's only when you have fifty to sixty in the Senate that you want to get concerned."

So, it's all Congress. There are five hundred thirty-five Congressmen and they're all egotists. They have us all by the throat. The President has no power at all, as they will tell you in a minute. They're such egotists that one Congressman calls "Dial a Prayer" every day to see if there's a message for him. And there was another Congressman who was telling his constituents that he was a very brave man because he had prevented a rape in a hotel the week before. They asked him how he did it and he said, "I used self control."

The Congress, of course, has two objectives: one is to be elected and the other is to get re-elected. The big thing for them is these PAC's—Political Action Committees. I don't know how you get your dough up here but you take the biggest PAC's in America—take the last seven years—the National Association of Retired Federal Employees gave one point seven million dollars in their PAC: the committee on letter carriers political education, gave one point seven million; the Political Action Fund of the American Postal Workers Union gave one point one million; the National Rural Letter Carriers Association gave half a million dollars. So that's how they get elected—by doing favours for all these people. Now, you take last year. We've got 12,000 post offices that serve only 100 people in the whole year. We've recommended closing them to save hundreds of millions of dollars, but, no way, they have to keep these 12,000 post offices each to serve 100 people. So, it's because of these PAC contributions that you can't save the money, because everybody in the United States is organized into a special-interest group and they get together, raise funds, and give money to Congress.

Now, I run a business and, after I'd been in Washington six months, I asked myself:

"What are the fundamental powers that I need to run our business?" Well, I thought, I have to organize it, I have to set pay scales and I have to control capital expenditures. If you have those three powers, you can run any business.

Now, the President cannot organize the government. No way. He's been trying to get rid of the Energy Department. I was just telling my neighbours from Dominion this morning, although they're heavily involved in financing the oil business, they didn't realize that the price of oil this morning fell to $12.47. I gave them the bad news and they're still here; I thought they were going to rush out to the phone when I told them. But the price of oil is $12.47 this morning and that means a lot of trouble for you people. But don't worry, it'll be all right. Shiek Yamani is going to get some good horse sense sometime this year and he'll get the boys together and he'll get it up around $20 again. But, at the moment, it's $12.47 and natural gas is down around $1.85. When Reagan came in new natural gas was $9 – the price of oil got to $42, you remember – and he's been trying to get rid of the Energy Department. We don't need an Energy Department in the United States. We've got gas and oil running out of our ears and, if we don't have enough gas, you'll ship it in from Alberta. Darn you people! You're shipping in about 1½ trillion cubic feet a year of natural gas and it's hurting the market and we don't like it. But we're not going to do anything about it, because of Wayne Gretzky—I mean, he's too good. But anyway, we don't need an Energy

Department, and President Reagan can't get rid of it. Only Congress can organize the government.

Can the President set pay scales? No way! Jack Anderson, a leading columnist, said to me, "Hey, let's get a bonus system for the government employees. Every time a government employee identifies waste, we give him ten per cent, after it's implemented. The first federal employee to get ten million will be on the front page and we'll be inundated with suggestions." But we can't get that through the Congress. No way.

We have fifty states. Forty-three of the governors of those fifty states can line item veto bills; they just go through a bill that has 180 items on it and they knock 32 off by drawing a line through each. We can't get the President that power. We've been trying to; we've been testifying before many Congressional committees. I remember one committee with (unsuccessful 1984 Presidential candidate) Geraldine Ferraro of Queen's County, New York. She said to me: "Mr. Grace, in advocating the line item veto, you're talking national autocracy." Well, I went to Yale but I didn't study too hard, so I didn't know what she meant by national autocracy. But I said: "Well, that's better than national bankruptcy."

But you still can't sell the idea. So, all I can say to you is that Congress has us by the throat. I'll give you one good example. We have two hundred twenty thousand employees in the Veterans Administration. We've got an administrator who works for the executive branch of the Government, and if he wants to change the jobs of three people or more out of two hundred and twenty thousand, he has to ask a Congressional sub-committee in writing on February 1, and they have until October 1 to say yes or no. So can you imagine being a member of the executive branch of the government, and have to deal like that with some sub-committee of the Congress? Isn't that absolutely crazy? There's no way we can ever get to be efficient.

Now, we came up with four hundred twenty-four point four billion of savings over three years. That's two thousand four hundred seventy-eight specific recommendations. We had twenty-two thousand pages of reports and we had a million and a half pages of back-up material in case any of these clowns read the stuff and tried to do something about it. We've got all the back-up material. But, it's very hard to get Congress to listen. Seventy-three percent of what we've recommended has to go through the Congress. President Reagan has accepted eighty-two per cent of our recommendations and now we're working with the Congress.

Now, keep in mind that we're spending two hundred twenty billion a year more than we take in. That's serious. Let me tell you why. If you have one dollar out of that four hundred twenty-four point four billion and I'm arguing with Tip O'Neill about it and saying, "Hey, Tip, that's waste." And he says, "Naw, leave it in." So you say to him, "Where are you gonna get that buck, Tip? You're in the red by $220 billion a year." He'll say, "Borrow it." Where do you get the interest to pay on that: "Borrow it." Where do you get the interest on the interest that you're borrowing: Well, you borrow that, too.

Well, if you have a little calculator, you can compound that. You take one buck and compound it from the year we gave our report to the President, in 1984 through the year 2000 – every buck is $71. You borrow it, you borrow the interest and so on: one buck is $71. So, our $424.4 billion over three years – $140 billion a year – if you multiply it by $71, you got yourself $9.8 trillion cumulative if you do this or you don't do it. So we've got to do it.

Now, trillions. You don't know what a trillion is and neither did I. We all went to school and we learned a trillion is a million million or a thousand billion. Alright, but you still can't envision a trillion. You know why – cause you've got finite minds and so do I. . . .we're all finite. We put it in volkswagens and six-packs of Molson or Labatt or whatever, and we didn't see how high the pile was. We tried to figure it out in time. If someone was born the moment that

Jesus Christ was born and started counting seconds - one - two - you know where he'd be now. . . .at 64½ billion. That's six and one half percent of a trillion. It takes 31,700 years to count a trillion seconds - that's 317 centuries and we're only in the twentieth century. . . .there's the same 6% coming right back at you. That's right, I'm not fooling you.

You go up to the O.M.B. though, and they don't call them trillions, they call them "trills" and you're talking to Dave Stockman and say, "hey Dave, what's that - 1.21 trill?" "No, no, that's 1.28 trill" they're throwing them around like this up in the O.M.B. The first couple of months I'd come back from there to W.R. Grace and Company, in one of our divisions the profit was off $2.1 million in a month. I couldn't stay awake! It's hard to get back to the real world when you're dealing in trillions I'll tell you.

Now, a lot of people in our government and our congress say that Reagan cut our income taxes. That's the problem - we've cut our income taxes. As a matter of fact, when we gave our report to the President in January, 1984, there was a big white house press conference and 185 reporters and 18 TV cameras were there. One of the first questions I got was from a lady in the front row. She said, "you didn't do anything in your report about taxing the rich." She was pretty aggressive. We weren't asked to look at taxes, by the way, that's legislative in the United States. I could've said to her, "that's legislative, Madam, sit down. Next question." But I wouldn't do that. So I said, "you're right. We didn't tax the rich. Who's rich?" "Well," she said, "anybody with $75,000 a year is rich." Now, you know that all of us feel that anybody who has twice as much as we do, is rich. So the wire services were paying her about $37,500 a year. I said to her, "you're right, $75,000 is rich. You've got Mondale and Hart (the guy from Minnesota who ran for President, another guy from Colorado—they ran for the nomination out of San Francisco with all those kooks out there, you know. No matter who got the nomination it wasn't going to make any difference. They spent $20 million getting the nomination. It was a farce.) Anyway, they went around the country talking to their supporters. They'd say: "if we're elected President, we'll put a 10% surcharge on all incomes of over $60,000 a year." And people in the audience would go "Yaaaaah" (you know, like that). If you put 10% surcharge on everybody in America who has income of over $60,000 you raise yourself $1.6 billion which is less than eight-tenths of one per cent of the deficit. What do you think those people were cheering about when they told them that: economic illiteracy, envy, jealousy. That's how our Congress runs. They assume that everybody's stupid, nobody thinks and that everybody is jealous and envious. . . .and they're right. So I said to that lady: "Mondale and Hart - they're pikers. They're trying to put a 10% surcharge on all incomes over $60,000. Let's go for 100% surtax on all incomes of $75,000 or more." She said to me, "that would be good." I said, "horray, now we can run the government for 7.2 days."

Because that's all it is, folks. If you take everybody's income in America over $75,000 not now taxed, it would raise enough money to run the government for 7.2 days. Do you know how much of the river of personal taxable income you've caught at the $15,000 level—you've caught 62%. And when you get to $35,000, you've caught 90.4% of the total personal taxable income flow. Where are you gonna get the money? There's only 9.4% of the taxable income left over $35,000.

We had a bank robber in New York by the name of Willy Sutton. He kept robbing the banks. They caught him after two years. They got him down to the police station and they said, "Willy, why are you always hitting the banks?" He says, "that's where the money is." So, the money, the taxable money in America is under the $35,000 level and yet the median—you know that a median is as much above as there is below—the median American family's taxes were $9, believe it or not, in the late forties. Now they're $2,218—that's 246 times; inflation is 7.3 times, so it's over 35 times what it was. Social security taxes were $28, now they're $1650: put them together and you've got $3,900 against $37—over a hundred times. That is 15 times faster than inflation. That's why we've got an underground economy in America of $100 billion.

We have a lot of restaurants in our company—850 of them—and I always try to get to know all the waitresses around the country as I travel around to check the service out. We've got one girl in New Orleans on Bourbon Street who gets $130 a day in tips. . . .never mind her salary, just in tips! I've asked her a few times, "do you put that on your income tax?" She's very sweet, but she's never answered that question for me or several others that I've raised with her. But anyway we've got a huge underground economy in America because people are right up to here with taxes.

So we can't fix it with taxes, we can only fix it by getting these politicians to sit down and address the issue. We had President Kennedy in the United States. You probably remember him. And you may remember that those were days called "Camelot Days". ("If ever I should leave you, it wouldn't be in springtime") That beautiful musical comedy—"Camelot". And then comes Reagan—they call him scrooge. He's cutting social programs. You know what the social programs were under Kennedy? They were $38 billion a year, 5.8% of gross national product. Now comes scrooge Reagan. You know what our social programs are: $462 billion and 13½ of gross national product. What the hell is Camelot and what the hell is scrooge? That's just the liberal press for you. They'll get you in the long run. Some of these media people. You know what Dan Rather gets paid—$2½ million. Walter Cronkrite has retired and they're paying him $1.1 million. These people are getting huge sums of money and they give you a little glimpse on the 7:00 news, but we're not getting the facts. We're all being confused. And that is the problem. The American people have to learn what's happening.

We've got an organization called 'Citizens Against Government Waste'. We've got six million signatures already and we have 129 Senators and Congressmen who have joined the 'Grace Caucus'. The Grace Caucus has lately got Senator Bradley, and Senator Nunn, and Senator Hollings of South Carolina. These are liberal democratic senators. We're making progress and we're getting American people to sit up and take notice and not listen to these media types that are misinforming them all along the line.

How long is a generation? Ask yourself. Forty years is a generation. In the last five years we've added a trillion dollars to our debt. How many five-year periods are there in a generation—eight! So we're adding $8 trillion of debt per generation. This present debt we have of $2 trillion: every kid born in America is going to pay $100,000 in taxes over his or her lifetime just to pay the interest. What will it be at the end of another, let's say, ten or twenty years? It'll be $13 trillion in the year 2000, and the annual interest alone is $1½ trillion by the year 2000 because of the compound interest of borrowing every damn thing you don't have.

So, when we spend $220 billion more than we take in, we're not spending our money, we're spending our kids' money. They can't vote, they don't have any say on it at all. It's inter-generation rape. It's robbing piggy banks. It's pickin' pampers. Its absolutely unfair to future generations. When our kids and our grandchildren grow up and realize what our apathy has done to them—our parents didn't leave us with $2 trillion of debt or anything like this and we have no right to do it—the real question is, will they ever forgive us?

The appreciation of the audience was expressed by Harry T. Seymour, President of The Empire Club of Canada.

Hon. Michael H. Wilson, P.C., M.P.

Minister of Finance

BUDGET 1986

March 6, 1986

At a meeting held jointly by
The Canadian Club of Toronto
and
The Empire Club of Canada
Co-Chairmen
James B. Pitblado
President, The Canadian Club of Toronto
and
Harry T. Seymour,
President, The Empire Club of Canada

Mr. Pitblado

It is a tradition of The Canadian Club to have the Minister of Finance address The Club in early January. However, this year we made a change, in view of the timing of the budget—and are happy to have him fresh from the budget presentation and able to talk to us today in an open and forthright way.

Today represents Michael Wilson's second appearance before the Canadian Club of Toronto where, as many of you know, he was some years ago The Club's First Vice-President. I am pleased that our sister club, The Empire Club of Canada, is able to share in today's meeting.

We live in a world of change—economic, political and social. Governments change suddenly, leading political figures are assassinated, and economic forces such as oil price and interest rates fall or rise dramatically. Within a bewildering array of statistics, facts, estimates and perceptions, the man who has the greatest impact on the economic well-being of every citizen and hence our country as a whole is, of course, the Minister of Finance.

The job is anything but an easy one. In fulfilling his responsibility, it is true he *may* please some people but he is much more likely to upset them, for human nature does not relish being told the harsh realities of life.It is much easier to lull oneself into a false sense of complacency, to pretend that all is well, and ignore the cost of facing up to problems that we would wish away. It is not difficult to be all for restraint as long as the burden falls on someone else.

Since his appointment in October 1984, Michael Holcombe Wilson has devoted all of his not inconsiderable energies to combatting this country's most serious and pressing problem, simply government spending far in excess of our ability to pay and a deficit that threatens to strangle our future prosperity if not attacked diligently. To his job he brings many important assets.

1. He is physically strong, so as to withstand the awesome rigours and pressures of his job. He still finds time to golf, ski and play squash, but far less frequently than he would like.
2. He has an ability to relax, and a high degree of self-discipline which allows him to control his emotions and save his energy and intellect for the careful and logical analysis of problems and the development of alternative solutions.
3. He is extremely thorough. His staff would attest to the fact that he knows his briefs in all their detail as well as, if not better than, they do.
4. He is a team player and, accordingly, has consulted widely with people in all sections of the economy and in all provinces in his desire to build as strong a consensus as possible.
5. Above all, it could be said that he was made for the job. His father had an illustrious career with the National Trust, becoming president of that organization, so that

business was in his blood. Michael was educated at private schools in Montreal and Toronto before studying commerce and finance at the University of Toronto under may of Canada's most admired economists.

Upon graduation in 1959, he went to London to work for the prestigious merchant bank, Baring Brothers, where he learned international finance and securities markets. After eighteen months in London, he spent six months in New York with Morgan Guaranty before joining Harris & Partners in 1961. Three years later, he was the first businessman to go to Ottawa on an exchange program between private business and government. He spent two years in the capital markets section of the Department of Finance before returning to his firm—I could say our firm—where for the next thirteen years he specialized in corporate and government finance, both domestically and abroad. In all of this, Mike acquired an intimate knowledge of financial markets and the critical importance and interrelation of strong healthy markets to the achievement of our economic and social goals.

His sense of duty and conviction that, if one wanted to be critical of the system, one should be prepared to do something concrete about it, resulted in his decision in 1977 to enter politics. In March 1978 he captured the Tory nomination in Etobicoke Centre and in the election of 1979 became a Member of Parliament. In the short-lived Clark Government, Wilson was Minister of State for International Trade.

Michael joins with us today fresh from the tabling of his second budget, confident that he is getting Canada's financial affairs on a firm footing and determined to win over the public to his views with his logical and reasoned approach.

Ladies and Gentlemen, please join with me in welcoming the Minister of Finance, the Honourable Michael H. Wilson.

Michael Wilson

I welcome this opportunity to be home in Toronto speaking to The Canadian and The Empire Clubs. I know the

Finance Minister usually addresses this audience early in the New Year. But I think you'll agree there's more to talk about today than there was before last week.

Last week's budget signalled the start of the next phase of our agenda for economic renewal—an agenda first unveiled in November 1984, which continues to be our principal plan to take this country into the 1990s.

The agenda strategy continues to be our plan because it is working, and working well.

Over the past 16 months, we have acted to complete Phase One of our ongoing strategy. That phase called for spending reductions to *halt* the increase in our deficits; and policies to spur economic growth and job creation. And that is exactly what we have done.

Economic growth during the past 18 months has been outstanding—equalled only by Japan.

Our rate of job creation has been fifty per cent higher than in the United States.

We were able to reduce the deficit by $4 billion and estimate we are coming in right on target.

And we were able to halt the trend of rising deficits by controlling spending. Despite four per-cent inflation, total program spending this fiscal year was down—in *absolute* terms—for the first time in over two decades.

It is important for Canadians to understand the magnitude of these financial achievements. In recent years, our annual deficit has exceeded $30 billion. That automatically added another $3 billion of interest costs to next year's spending. We had to find $3 billion just to stay even, and $7 billion to reduce the deficit by $4 billion. And we did it.

Last week's budget builds on that record of success. It touches many aspects of our agenda. But most importantly, it continues our plan to achieve fiscal stability by the end of the decade, and to improve the Canadian tax system in an orderly and measured way.

Let me first talk about fiscal reform.

The measures I announced in last week's budget are part of a carefully balanced program of actions to reduce expenditures and strengthen revenues through the five-year period to 1990.

Phase-One halted the upward spiral of our annual deficits. In this budget, we are taking steps to put the deficit firmly on a downward path.

Our goal is to bring the deficit under $30 billion. We have set a specific target of $29.5 billion for next year—a reduction of $4.8 billion. And we have put in place initiatives to lower the deficit to $22 billion by the end of the decade. These figures relate to our annual budgetary deficit.

More important, and more relevant, is the Government's cash requirements—the money we must actually borrow in the financial markets to cover the bills. This is the closest equivalent to what the Americans call their "total budget deficit."

Under our fiscal plan, our "total budget deficit" will drop—and drop a long way. This year, it amounts to almost $29 billion. It will drop by 39 per cent over the next two years to $18 billion. By the end of the decade, we will have reduced our cash requirements to $11 billion—a cut of nearly two thirds from current levels.

This result will be achieved by the most significant debt-control program ever undertaken in this country, a program that will restrain the growth of our national debt by nearly $100 billion over the rest of this decade.

The growth of our debt averaged almost 23 per cent a year between 1974-75 and 1984-85. It will slow to 17 per cent this year, and to less than 12.5 per cent the following year. By 1990, our debt will no longer be growing faster than the economy. We will have achieved the goal of fiscal stability that we set in November of 1984.

Tax increases contribute to this result. Part of our plan is to restore Government revenues as a share of the economy to the level of the mid-1970s. We are asking Canadians to once again begin paying the full cost of government services—something we haven't been doing for many years.

But fully 70 per cent of the total debt reduction program will come from expenditure cuts.

Those aren't based on a "tax now-cut later" basis. Between 1984-85 and 1990-91, we will be cutting expenditures by $3 for every $1 we raise in extra taxes, relative to the size of the economy.

The fact that many Canadians haven't seen or felt the cuts is no accident. We are determined to achieve these spending reductions in the least disruptive way possible.

That means making selective cuts—real cuts. And many programs and subsidies have already been eliminated.

But more importantly, it means managing better, spending smarter and eliminating waste across the entire range of Government services. It may not be good political theatre. It's just good government.

The Nielsen Task Force has been a great help here. Many of the hundreds of recommendations of the Task Force have been implemented. They reduce overlap, increase efficiency and eliminate programs. Taken together, they form an integral part of our drive to more effective government.

But we are going beyond the specifics of the Nielsen Task Force to encourage productive management. We are trying to change the deeply rooted habits of government management by rewarding those who do more with less—not the empire-builders.

And after last year's experience, we are confident we can do it.

Through program elimination, spending restraint and better management, we believe we can hold discretionary spending to an annual increase of 2.7 per cent over the next 5 years—well below the rate of inflation. Total program spending will increase by 3.2 per cent a year—again below the rate of inflation.

As a result, federal programs in 1990-91—that is, total spending excluding interest payments—will shrink to the same share of the economy as in the early 1960s.

Some may doubt this can be done; and yes, it will be difficult. But we have a track record of success to back up our plan.

We have already made great progress in regaining control of our financial situation. And we will continue to make progress throughout this decade.

I recognize that some commentators are questioning some of the assumptions underlying our plan. Nonetheless, I remain convinced that our overall plan is based on prudent assumptions. We are well within private-sector forecasts over the medium term. In fact, if we were to use assumptions similar to official American forecasts, we could show a balanced budget on a national account basis in 1990-91. That may happen. But we are certainly not going to bank on it. It takes actions, not assumptions, to solve a financial problem.

For 1986, we are projecting that Canadian short-term interest rates will decline rapidly, particularly over the second half of the year, and will average 9.5 per cent, roughly the same as in 1985. We have assumed that Canada/U.S. interest rate differentials will average about 200 basis points, more than 50 per cent greater than the average of last year and more than three times the level in October 1985.

Soft oil prices and recent bond market activity strengthen my conviction that these interest rates are a prudent and realistic forecast. Indeed, long-term Canadian bond rates have now fallen appreciably from January 1986 levels.

Volatile oil prices provide more difficulty for forecasters, but decidedly less difficulty for the Canadian economy and our budget plans than is often assumed. Let me be clear on this—Canada is a net winner from lower oil prices.

If world oil prices stabilize at a lower price than we assumed, economic activity will be stronger in the major industrialized countries including Canada, as well as in many less developed nations. Inflation will be lower, interest rates should decline and export opportunities will increase.

Lower oil prices would have negative effects on energy revenues and some investment plans. But our manufacturing, agricultural and non-oil resource sectors would benefit.

Consumers would also benefit, and strongly. Overall, real growth and employment would be higher in Canada; and our chances of achieving our medium-term objective of fiscal stability will be strengthened.

There are two reasons why lower oil prices will be less important to our fiscal plan than is often assumed. The first reason is the end of the National Energy Program. Unlike the former Government, we are treating the energy industry like any other industry. Direct revenues from energy taxation are projected to be only $1 billion in 1986-87—1 per cent of total revenues. That is down from $4 billion, or 6 per cent of total revenues, in 1984-85.

The second reason is that Canada is no longer a drawer of water and hewer of wood. We are a major industrialized country. In fact, manufacturing in Canada takes up the same share of our gross domestic product as in the United States—approximately 22 per cent. Our primary sectors are also of similar size at 6 per cent of gross domestic product. And because many of our manufacturing industries are more energy-intensive, they will benefit even more from lower oil prices than American manufacturers, and even more so relative to Japanese and European competition.

Let me add that recent oil price trends strengthen my conviction that raising taxes in lieu of further spending cuts was appropriate in the circumstances.

I say that, because the low commodity prices we have experienced in the '80s benefit the manufacturing heartland of central Canada and slow economic growth in the regions. Further direct spending cuts would have aggravated regional disparity. They would have caused greater unemployment in the regions, leading to a higher federal deficit.

We want to create jobs and reduce the deficit—not the opposite; and a balanced mix of tax increases and spending reductions will allow us to do so.

But the budget was not just about spending cuts and tax increases. It was also an agenda for improving the tax system.

As I said last week, I intend to propose further measures in my next budget to reform our system of social expenditures and related tax provisions.

Those measures will maintain universal access, improve the opportunities for individuals to become self-reliant, direct more revenues to those most in need and reduce the after-tax value of benefits going to high-income Canadians who do not need assistance.

We will also continue our efforts to make a more efficient and competitive corporate tax system. The budget implemented Phase One, by removing or reducing certain selective tax preferences and replacing them with lower tax rates. I will be releasing proposals for Phase Two later in the year, consistent with the principles set out in the Budget Paper I issued last May.

We also intend to reform our antiquated sales-tax system.

The problems with the current system are well know. It results in serious inequities among competing business firms. It puts Canadian manufacturers at a competitive disadvantage relative to importers. It results in hidden taxes on exports. Canada is now the only industrialized country in the world that still imposes a sales tax at the manufacturers' level.

I expect to put forward a paper with a concrete proposal for public discussion at an early date. Our intention is to move to a new system that will encourage growth, improve equity, and yield revenues sufficient to replace the federal sales tax, to end the surtaxes announced in the budget and to build on our new sales tax credit for low-income Canadians.

I said at the outset that the budget is part of our overall strategy. This plan is long-term and forward-looking. It is an integrated framework in which fiscal and tax reform work together with trade policy, privatization, training programs, technology incentives, competition policy, regulatory reforms and other policies to prepare Canada for the 1990s.

And those policies are working. We are on the right track.

And maybe it is time for us all to begin feeling good about our country and the direction we are moving in.

We have much to be pleased about. Our economy has come a long way in just 18 months. Economic growth and productive activity tell the story. The future *is* promising.

That is what our agenda is all about: a better future. That is what we promised Canadians. And that is what we are delivering.

We will continue to act with consistency and determination. And if Canadians look back to September 1984 and see the progress we've already made, I believe they will look forward with a renewed sense of confidence.

The appreciation of the audience was expressed by Harry T. Seymour, President of The Empire Club of Canada.

Norman Burrough

Chairman, James Burrough PLC

A TRADITIONAL ENGLISH FAMILY COMPANY

March 13, 1986

The President
Harry T. Seymour, Chairman

Mr. Seymour

Reverend Sir, distinguished head table guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today Norman C. Burrough, Chairman, James Burrough PLC, which has as its registered office Beefeater House, Montford Place, Kensington Lane, London, England.

"Beefeater" is the popular name for the members of the Yeomen of the Guard, including the Yeomen Warders of the Tower of London. First organized in 1485 by King Henry VII, the Yeomen of the Guard still serve as a bodyguard to the King or Queen of Great Britain on formal occasions.

Originally, a Yeoman was a retainer of a feudal lord in early England. In the 1400s, the name Yeoman came to mean "English forester," or small freeholder on a feudal manor.

Later, the Yeomen evolved into an independent class of small landowners and farmers. Famous for their sturdiness and patriotism, they formed their own volunteer cavalry groups, called Yeomanry, after 1761.

The commissioned officers of the Yeomen of the Guard wear a sash across their colourful Elizabethan costumes and carry weapons that date back to the Tudor period. Their tunics are red and have blue and gold facings. They wear red knee breeches and flat-topped hats.

An appointment to the Yeomen of the Guard is honourary. Commissioned officers for the Guard are still chosen from Great Britain's regular armed forces, although the position no longer requires any fighting ability.

Years ago the "Yeomen Warders of the Tower of London," non-commissioned officers from Great Britain's armed forces, were nicknamed "Beefeaters," although it is somewhat difficult to establish the exact origin of this nickname. One theory suggests that it may have started in Tudor days, when servants ate their master's beef.

A more recent theory suggests it may have originated in the 1100s from the French *buffetiers*, those servants who attended the King and Queen to protect them and to ensure that the food was not poisoned.

The Beefeaters have an ongoing responsibility, inasmuch as the Tower of London houses the Royal Jewel Office. Here the crowns, sceptres, and other glittering royal treasures of the English rulers—known as the regalia—are closely guarded.

Born in Epsom, Surrey, Norman Burrough is chairman of James Burrough Ltd. PLC, distillers of the famous Beefeater Gin.

After completion of his schooling at St. Paul's School, London, Norman Burrough entered active military service in 1944, rising to the rank of commissioned officer in the Coldstream Guards. He left the service in 1947 to join James Burrough Ltd., rising to his present position in 1982.

Mr. Burrough is married, with two sons and one daughter. He resides in Dencombe House, Handcross, Sussex, when he is not conducting his family's business affairs in London and other major urban centres.

Ladies and gentlemen, it gives me great pleasure to introduce Norman C. Burrough, Chairman, James Burrough PLC, who will address us on the subject, "A Traditional English Family Company."

Norman Burrough

Mr. President, honoured guests, ladies and gentlemen: Some years ago, I lived in an old vicarage and on Sunday mornings we walked to church through our private garden gate. We had an excellent vicar and, when he came to make his address, he would say a short prayer.

Either: "God the Father, God the Son and God the Holy Ghost." In that case, we were in for rather a dull time. Or he would say: "May the thoughts in my heart and the words on my lips be always acceptable in your sight, O Lord." Then we would all sit up and take notice!

I trust what I have to tell you today will be in the latter category.

Today, when one hears the term 'family company,' certainly in England in any case, the man in the street immediately conjures up images of (television's) Blake Carrington or JR Ewing heading up multi-national, multi-faceted, and multi-problematical organisations where it seems to me that every member of staff from the janitor to the chief executive is either a cousin, brother, ex-wife or some relative of the founder. It always astonishes me how Blake and JR find the time between scandals and skullduggery to run such successful businesses!

No, life at James Burrough—which has been a family company since my ancestor, James Burrough, started to distill Beefeater Gin in Chelsea in London in the early 1800s—is just as exciting as Dynasty or Dallas, but we derive our excitement from distilling and selling the finest gin in the world, rather than from intrigue and back-stabbing.

As you will have gathered, the theme of my speech today is the traditional English family company. I feel that I am well qualified to speak on this subject as James Burrough is one of a sadly ever-decreasing number of genuinely old family firms in England.

In 1947, I joined my father, cousin and elder brother in our family company, which had already been established for over 100 years. We were a very small company, struggling to make ends meet, involved with a wide variety of alcoholic beverages. In fact, if it had alcohol in it and you could drink it, we either distilled it, made it, imported it or blended it!

Looking back on my earlier years, having just left the Army, I am amazed just how primitive we were. Father, in traditional shopkeeper style, had his office just inside the front door from where he watched all who came and went. On Thursdays, he cycled across Westminster Bridge to visit the bank and collect the money for the wages.

In the distillery, all plant equipment except the all-important stills was second-hand. The steam pumps, very reliable, had been working for upwards of 40 years.

The idea that the salesmen should have a company car to help them in their work was outrageous. In fact, I don't think they knew how to drive anyway! Bowler hat, gloves, rolled umbrella, spats and striped trousers were the order of the day.

As the years went by, more by evolution than strategy, we concentrated more and more on one product—Beefeater Gin. By 1967, twenty years on, Beefeater had gained worldwide distribution, was brand leader of imported gins in the United States, and has since become leader in may other countries, including, of course, this country (Canada), Japan, Norway, Spain, and the success story continues.

We have now come full circle because, by 1980, we were actively looking to acquire companies and to broaden our base with new products. These ventures include the acquisition of Elsenham Quality Foods, a high-quality company making the finest Marmalades, Preserves and the famous Patum Peperium The Gentlemen's Relish, an anchovy paste.

And the launch of the ready-to-drink Beefeater Double Gin & Tonic in the U.K. and now in the United States.

I believe a family company still has a number of advantages. There are also a number of problems. I would like to share with you my thoughts and fears.

Firstly, we have the advantages of loyalty, drive and dynamism, speed of action and decision taking and, dare I say it?

paternalism and the ability to communicate. Everybody knows who is the boss!

Most family businesses have been established by the determination, ability and personal commitment of one person.

However, the majority of family businesses have come unstuck when, after the original dynamism of the founder of the firm has been passed on, in diluted form, to succeeding generations, the line of succession comes to rest with the family twit born with a golden spoon in his mouth. He proceeds to ruin everybody's hard work through spending profits on wine, women and song, while simultaneously neglecting the development of the business.

There are, of course, notable exceptions to this trend: Family firms like:

> Trust House Forte, started by Charlie Forte, a London barrow boy, who in his lifetime has built the empire of Trust House Forte, now rated the 89th largest U.K. company with a turnover of £963 million. Ably managed by Charles Forte's son, Rocco.
>
> Guinness. Here is a very interesting example of a long-established family company based on one product, Guinness, which is becoming outdated and out of fashion. The family decided that it must diversify and it would appear that each director "did his own thing," resulting in the firm acquiring some 160 companies in a completely un-coordinated fashion. Ernest Saunders, the non-family Chief Executive, has now sold some 130 of these acquisitions.
>
> Another barrow boy, the late Maxwell Joseph, built Grand Metropolitan Hotels, which now ranks as 10th-largest U.K. company, with a turnover of £4,468M. This is another success of building empires from nothing within one generation.
>
> McAlpines still run that eminent construction company; Cadburys still makes excellent chocolate; Sainsbury has a successful chain of very good food stores; and there are a host of regional breweries, the odd pri-

vate bank, grocery businesses and many other examples.

The ongoing ownership and management of a family company over the generations needs careful planning.

We have always aimed to select the best person for the job, family or not, on the basis that the success of the company is for the benefit of all the family shareholders. The danger, of course, is that you may get to the situation where the family has little or no direct interest in the business and so loyalty wains.

The other major problem for family companies is the area of finance.

For many years in England we had high personal taxation. This has precluded private individuals and family shareholders from being able to invest additional capital in their company for its expansion. The present Government has started to reverse this trend and private investors are beginning to reappear.

So the financing has to come from the retained profits for the company's future development.

But the problem has been much worse than that, as members of the family have wanted to sell shares to pay for their children's education, to buy a house, or many other eminently commendable projects.

But worse is to come—Estate taxes. As the generations change, so the executors—or perhaps "executioners" is a better word—need to sell shares to pay the taxes. The more successful the company, the higher the taxes, in addition to which capital gains tax has to be paid. So we have a vicious circle.

Over the years at James Burrough, we have had very sympathetic family shareholders, for the policy of retaining profits in the company. The only cry was when we acquired Elsenham Quality Foods in 1980. A shareholder spoke out at our annual general meeting: "Jam yesterday, jam tomorrow, but never jam today."

So how do we navigate through these rocks?

Firstly, by making our shares available on the O.T.C. Market, where we have some element of control and our shareholders can obtain a fair market price and outlet for their holdings. On this side of the Atlantic, the O.T.C. Market is well known and understood. In London, it is very small and distinctly frowned upon by the traditional city institutions and particularly by the London Stock Exchange.

James Burrough was one of the pioneers into the O.T.C. Market and it has worked well for us. After eight or so years of operation, some twenty-eight per cent of the family shares has been sold into pension funds etc., so-called "safe hands" where we hoped that some shareholders' loyalty would exist. We have certainly always been able to identify the true ownership of any holding. Recently, the law has been strengthened on this point; it is now mandatory to declare the true owner of every share, if asked.

To slow up the drift of family shares away from the company, we have found a route by issuing preference shares, which classify as voting shares but only if the dividend is in arrears. This class of share has a ready market in other family trusts.

Before I leave this topic, I would just like to make one more observation on the institutional shareholder. It is inevitable that the fund manager's loyalty is to his client and not to the company. This is fundamental of the difference between a loyal family shareholder and an institutional one.

One doesn't have to look farther than our own pension fund, ably managed by an investment manager. I chair our quarterly trustees' meeting to review the investment policy and examine the share movements over the period. We applaud where a share has been sold to lock into the fund a useful capital gain.

Britain is in the grip of takeover fever, particularly in the wine and spirits sector, with a record number of bids totalling billions of pounds having been announced in the last twelve months. Gradually, those family businesses which have remained private or with the majority of the shares held by relatives, have succumbed to the lucrative offers of the conglomerates or institutions run by grey men with little or no regard for the traditions or standards of the firm they are taking over.

For a few moments, I would like to tell you about the current state of play of some of the extraordinary events in our industry.

I was speaking a little earlier of the family company of Guinness, and I stopped at the point where its non-family chief executive, Ernest Saunders, had sold off many of the unattractive acquisitions that had been made. This action resulted in Guinness becoming far more profitable and in funds being made available for further acquisitions. Last summer, it struck, acquiring Bells Scotch Whisky, ably run by Raymond McQuell, who had made Bells brand the leader in the UK against Distillers and other brands.

The acquisition was hotly contested but, in the end, Guinness succeeded because its offer was sufficiently attractive to the institutions in that they could lock in a capital gain in accordance with their investment policy.

My sadness is that I believe this takeover was purely for financial considerations and not about the synergy of the two companies or the effectiveness of their managers and only a little to do with Bells Scotch being a strong brand.

One of the more extraordinary events of the current acquisition scheme is the fact that significantly smaller companies are bidding for very much larger companies.

A case in point: James Gulliver Company Argyle Foods, perhaps known over here for its ownership of Barton Brands, has put in a bid for the mighty Distillers Company with an offer of £2.2 billion. The board of Distillers, thoroughly alarmed at the prospect, has asked Guinness to acquire them.

The public slanging match with acrimonious advertising has to be seen to be believed. (I have a few samples taken from last week's London newspapers with me, if you care to see them later.)

The High Court actions, the Office of Fair Trading, the

Monopolies Commission is mind-boggling.

Distillers Company is so keen to keep out of the clutches of Argyle that it has actually agreed to pay Guinness all of the latter's costs of the takeover, estimated at £38M.

We have two other larger takeovers in progress in our industry.

Firstly, the Australian John Elliott's company, Elders IXL, is bidding over £2 billion for Allied Lyons, on the basis that it can do a much better job and use its brewery expertise. However, its first venture into brewing was 18 months ago when it acquired Carlton & United Brewery in Australia (of Foster Lager fame).

Secondly, Hanson Trust is bidding for the Imperial Group which includes Courage Brewery and other wine and spirits interests. Hanson's requirement here would appear to be the necessity to be able to show continuing growth, which can only be achieved by acquisition.

The list is endless. It is estimated that at least £10 billion is on offer within our industry sector at this time.

The cost of mounting one of these bids must be in the order of £40M, where in each case they are being hotly contested. Among those who gain must be the professional advisers, advertising agencies, and newspapers, from which we have a continual barrage of vitriolic comment.

We at James Burrough are able to carry on virtually unhindered with the most important task of building our brands and developing our companies, instead of having to use management time in fighting a defensive action.

Even so, the size of these takeovers is sending ripples through the marketplace, to which we have to respond.

I wonder, when all the dust has settled and the takeovers are complete, whether the new boards of directors in our industry will have the same problem as an insurance group that merged some years ago and had difficulty in finding a new corporate emblem for the combined companies.

So what are the chances for the future of James Burrough continuing as a family company? With the scenarios that I have just described, I believe they are excellent.

Firstly, we can continue to claim the loyalty and interest of our family shareholders, including the growing band of employees owning shares, by ensuring a continuing stream of increasing profits, that they can see that their company is progressing and keeping their personal interest in their investment.

Secondly, by making it possible for family shares to be sold without diluting their voting power.

Thirdly, by demonstrating that we are a well-managed, progressive company, with an efficient management team that will ensure success for the future.

Fourthly, that we have a continual development policy with new products and new companies.

Fifth, that we continue the philosophy of small, self-contained units of management where initiative can thrive and managers can reap the rewards, not only financial but also of personal commitment to his and the company's success. That he can proudly say:

"I built that."

Finally, and not least, that we continue to produce the finest products we are able, that we can be justly proud of our company and the service we give to our customers.

The appreciation of the audience was expressed by Robert Armstrong, a distinguished Past President of The Empire Club.

Larry Grossman, Q.C., M.P.P.
Leader of Her Majesty's Official
Opposition, Province of Ontario

BUILDING THE NEW ONTARIO

March 20, 1986

The President
Harry T. Seymour, Chairman

Mr. Seymour

Reverend Sir, distinguished head table guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today Larry Grossman, Q.C., M.P.P., Leader of the Official Opposition, Province of Ontario.

Since Larry Grossman last addressed The Empire Club one year ago, as Treasurer of Ontario and Minister of Economics, his political life has been transformed completely, from Government to Opposition, from Minister into leader of his party.

After the May 2, 1985, election, he was appointed Minister of Education and Colleges and Universities, Provincial Secretary for Social Development, and Government House Leader in the short-lived government of Premier Frank Miller.

In June, following the ruling by the then-Lieutenant Governor of Ontario, the Honourable John Aird, initiating the orderly transference of power, Larry Grossman was appointed House Leader.

With those rapid changes in political fortunes came a desire on the part of our guest to review the events of the previous nine months so as to establish in his mind a clearer picture as to his possible political or professional career. As part of this review, he agreed in July to join the law firm of Fogler, Rubinoff on a part-time basis in an advisory role.

When Frank Miller announced his intention in late summer to step down as leader, Grossman's review took on a new meaning.

Backed by at least 22 M.P.P.s and the Big Blue Machine, Larry Grossman formally launched his second bid to capture the leadership of the Ontario Progressive Conservative Party on September 18, 1986. At the convention in November, he narrowly defeated fellow Tory hopeful Dennis Timbrell and assumed the leadership of the party in what many considered a major shift in party philosophy.

The Financial Post of November 30, 1985, wrote:

"There is little doubt that Grossman is a Progressive Conservative although he may be more progressive than conservative. His victory. . .represents a triumph of the liberal wing of the party and a break with the past. In a larger sense, it reflects the seismic shift in Ontario Politics in the last year. . .

"Grossman succeeded because he convinced Conservatives that their defeat was an accident, a mistake, only a way-station on the road to redemption. With a little work and a little luck, he preached, the dynasty would be restored."

First elected to the Legislature in 1975 for the riding of St. Andrew-St. Patrick, he achieved political successes that have served to extend the Grossman political dynasty founded by his father.

Larry's wife Carole, a successful entrepreneur in her own right, and their three children Melissa, Jamie and Robbie, give every indication of continuing to extend the Grossman tradition of "unstinting service to the community," from which all the citizens of Ontario have benefited.

Ladies and gentlemen, it gives me great pleasure to introduce Larry Grossman, Q.C., M.P.P., Leader of the Official Opposition, Province of Ontario, who will address us on the subject "Building the New Ontario."

Larry Grossman

Ordinarily, I would address an Empire Club audience on economic matters—on issues such as free trade, technological development, skills training and the like.

But I have chosen, instead, to talk about an issue that is causing deep division, acrimony and unrest throughout the province. That issue, of course, is the government's unbending drive to pass the *Health Care Accessibility Act*—legislation designed to end extra-billing by Ontario physicians.

As you may recall, I served as Minister of Health for 18 months. During that time, I learned a great deal about the health care system and about the medical profession.

My tenure began with a complex round of fee negotiations marked by "job action" which was, in effect, a strike by the Ontario Medical Association against the Government generally and against me in particular.

But when I got to the negotiating table, I discovered that very little of the conflict was actually related to the issue of compensation. Most of it was rooted in the pride of the medical profession—in their sense of autonomy, their desire to influence health policy and their belief that government could not and should not be the sole force in health care planning and delivery.

Indeed, I remember meeting with the 24-member OMA board of directors at the height of the negotiations. I was impressed—and frankly rather surprised—to find that money was only the manifestation of the problem. The source was professional integrity.

The experience of those fee negotiations—and other contact I had with physicians during my term as Minister of Health—taught me a number of things about our system of health care delivery.

It taught me that there is a need for thoughtful, co-operative, long-term strategic planning in the health care system.

It taught me how easily the system could be reduced to a battlefield between warring interests and proud professionals.

It taught me about the need for sensitivity, forethought, and care, tact and diplomacy in creating new policy and programmes in the health care field. I saw immediately that power politics would destroy, not accomplish.

That experience also left me, as Minister, asking some basic questions about the way health care policy is developed in Ontario—and whether the system, as it existed, could keep pace with the changing demands for health care in the Eighties.

Taking all of this into account, we decided to create a process of consultation on the future of health care delivery in Ontario.

So we began a series of 11 separate conferences all across the province. We brought together close to 1,500 health professionals, government officials and health care consumers, to work together in developing a long-term strategic plan for the future of the health care system.

I believe that the result of this process was a new beginning for health care in Ontario.

There was a recognition that the large institutions—the big hospitals—were not answering all the needs of the community. A new thrust towards community and neighbourhood clinics was the result.

There was a recognition that we were not providing the right kind of facilities and care for the elderly, the disabled, and those suffering from mental illness. And what came out of our discussions was a massive expansion in programmes offering a choice between institutional care and community-based care for those groups.

There was a recognition that our health care system should focus much more on preventing illness and disease. The result was a much stronger focus on programmes to promote good health.

These were just a few of the key reforms that developed out of the consultative process. There were others, such as the creation of a paramedic programme, now under some attack by the new Government, the improvement of emergency services and the compulsory vaccination of school children.

But the whole process proved that our health care system can be improved. That the quality of services can be enhanced. And that better linkages can be developed between institutions and the communities they serve.

But the most important thing we learned throughout that process is that reforms within the system will only be achieved through co-operation and consultation. That, when government, health-care practitioners and consumers work together, we *can* bring about real and measurable improvements.

Surely that same formula can—and must—be applied to the issue of accessibility.

Instead, what we have seen over the past few months is an escalating confrontation between the Government of Ontario and the province's physicians.

All three political parties are united in a common belief in the fundamental principles of universality and accessibility. We all believe that high-quality medical care must be a right of every citizen—regardless of ability to pay.

Where we differ is on how to achieve these basic principles.

The accord partners have selected one route and one route only—a ban on extra-billing.

We have acknowledged that that may be one option to achieve accessibility—at least, in theory, but it is the most negative and punitive approach that could be taken.

What we have seen from Government is a single-minded determination to reduce the debate to "them" versus "us"—and the forces of "evil" versus the forces of "good."

They have abandoned negotiation, conciliation or consulation. Instead, they have chosen a style of management that is divisive, acrimonious and confrontational.

And to make the exercise even more cynical, and more a political chess game, the Minister and the Premier keep saying they are prepared to negotiate—the media prints the words in headlines—and then in brackets (but not the principle of banning extra-billing). It is to change the game to a simple sham to tell the public you will negotiate and tell the doctors you won't.

I think it's important that we start by putting this debate into some context.

The first point we have to examine is the impact of the penalty provision in the Canada Health Act.

The Ontario Government claims that the federal government is forcing it to ban extra-billing or face the loss of $54 million a year.

I think it's important to understand that this will not result in a $54-million cost-saving as the Premier, his Treasurer, and the Minister of Health like to claim.

In fact, if the Ontario Health Insurance Plan (OHIP) fee schedule is adjusted by as little as 5 per cent—to compensate doctors for being forcibly brought into the plan and losing their existing right to extra-bill—then it would actually add more than $100 million to our annual health care bill.

This $100 million can surely be better spent on CAT scanners, improvements to Princess Margaret Hospital, more chronic-care beds, better perinatal units, modern equipment and paramedics.

And while Premier Peterson has promised to ban extra-billing by April 1986, the fact is: the federal legislation has given all provinces until April 1987 to negotiate universal accessibility to their health care systems.

Why hurry? For what? At what cost?

Second, you have to remember that we have not yet developed a mechanism in Ontario for rewarding physicians for their experience and excellence.

A recent graduate from medical school is paid at exactly the same rate as a physician with 20 years of experience, or a physician who has developed an international reputation in his or her field.

Without some way of rewarding experience and excellence, we may lose some of our best physicians.

Let us not forget that when Quebec banned extra-billing, 287 specialists moved to Ontario. Premier Peterson says he is prepared to lose some—cavalierly says we have too many doctors.

My question: Who? How many? Why?

Third, when the Minister of Health introduced his legislation last December, the number of doctors choosing to opt-out of OHIP was down from 18 per cent in 1979 to a record low of 11.8 per cent—indicating an obvious pattern of decline.

Indeed, since most opted-out doctors extra-bill in-office, and perform their hospital services as part of an opted-in group, only 3.1 per cent of all doctors are totally opted-out. Those that are opted-out extra-bill only 23 per cent of the time.

The net result? Perhaps only 3 to 4 per cent of patients are extra-billed.

It is not to deny, however, that there may be problems of accessibility in certain medical specialties and in certain geographical communities. Clearly, those concerns must be dealt with in a positive and constructive way.

Unfortunately that is not the approach we have seen. We have seen confrontation.

But that style does not serve the long-term needs of the people of this province. Neither does it build progressively upon the institutions and the systems that we have evolved here in Ontario.

Just think for a moment about what the health care system will be like five years from now if this style of management continues.

If physicians feel that some of their basic rights have been destroyed because they were forced, rather than negotiated, into the plan, what will be the long-term impact on our health care system?

If anyone here does not think that our society is going to pay a significant and real human and financial price because of the way in which the Liberals are handling the issue of accessibility, then they are sadly mistaken.

What the Peterson Government forgets is that the health care system is run by people: by physicians, nurses, hospital administrators, technicians, and other health professionals.

They're people, just like you and me. They have the same motivations as you and me. When they are happy, they're productive. But when their morale is destroyed, or when they are fighting within the system, the quality of their work suffers—just as ours would suffer under the same circumstances.

By failing to negotiate a compromise agreement with the OMA the provincial government runs the risk of permanently damaging its relations with the province's doctors.

After all, this battle is not about money alone. Many physicians who are opted-in—physicians who *have* never and *will* never extra-bill—have taken up the cause because they believe fundamentally that this legislation threatens the traditional doctor/patient relationship, threatens their independence, unbalances the scales.

For those physicians, the issue is how the government of the day treats the medical profession. Whether it treats doctors as partners who will play a pivotal role in the long-term development of health care delivery. Or whether it treats them as adversaries, employees and servants.

Doctors are concerned about the direction of public policy. And they have every reason to be concerned.

They fear an erosion of their status as independent professsionals. And whether it is justified or not, some doctors fear they will become civil servants.

And is it justified? Well, let me read you the quote from (NDP leader) Bob Rae on the second reading of Bill 94 in the Legislature:

"There are those who say we are talking about the socialization of medicine. To those who say that, I say amen."

I call on Mr. Peterson to dissociate himself from the socialization of medicine as described by his friend and colleague, Mr. Rae.

How does the Government treat doctors who are civil servants?

Psychiatrists working in the province's mental health facilities are threatening "job action" this week because the Peterson Liberals will not negotiate improvements to their working conditions—improvements that would enable them to provide better treatment for their patients.

If this is how the Government treats doctors in the civil service, it is little wonder that OMA members are concerned.

And if the future of this basic partnership is in jeopardy, so too is the future of continued reform and improvement of our health care delivery system.

We have asked Premier Peterson—in the Legislature and in the Standing Committee on Social Development—to end the stalemate.

We have asked him to end the posturing. Stop trying to pretend that he is interested in negotiating, while insisting on policy that makes negotiation impossible.

We have asked him, and will continue to ask him, to set aside his legislation. I call on him to set aside the Bill and sit down with the OMA and with other health care workers and professionals in this province.

Sit down with our health care practitioners and discuss openly and honestly—without any hidden agenda, without an eye to headlines in the morning newspapers or a sixty-second clip on the evening news—and discuss ways of achieving accessibility and meeting the other concerns and challenges facing our health care system.

The Premier should also stop talking about "capping" the number of doctors in Ontario. He is only fuelling fears in the medical profession by making comments like those he made last weekend when he said there are too many doctors in our province.

He is compounding their current fears about a hidden agenda. One of control, dictation, and subservience. Then yesterday he said: "Trust me."

We have a specific, known and serious *shortfall—not*, Mr. Peterson, a surplus—in several specialties: psychiatry, anaesthesia, opthalmology, orthopaedic surgery, oncology, general surgery, laboratory physicians, ear, nose and throat specialists. We need more specialists in all these areas.

We have also put forward several specific proposals that could be discussed between the Government and the OMA.

We have suggested that they try to reach an agreement to ensure that there is no extra-billing for seniors; for people on social assistance or fixed incomes; and for people receiving OHIP premium assistance.

We have suggested that they discuss expanding our excellent network of community health centres and health service organizations, so they can compete head-to-head with the opted-out extra-billing physicians.

We have suggested that all Ontario residents be provided with the legal right to receive insured health services at the OHIP rate-allowing extra-billing with the patient's consent and agreement only.

Other groups have come forward with their own compromise positions as well.

Over the past several weeks, group after group has appeared before the Legislative Committee reviewing the Government's Bill to ban extra-billing. And while each group has put forward its own unique views, the common theme has been: resolve the issue.

They all say:

"Sit down and negotiate some form of guaranteed access to the system."

One group suggested that no more than 30 per cent of the members of any specialty should be engaged in extra-billing at any time.

Another suggested limiting the ban on extra-billing to all services performed in a public hospital.

Another suggested that, for emergency and non-elective services performed in hospitals, a physician who does not extra-bill should be available at all times and in all specialties. The list goes on. But all of these suggestions are designed to ensure that the principle of universality is protected.

Perhaps some of these ideas might work—perhaps they are not all perfect solutions.

The Government ignores the committee hearings. It ignores the committee's valid suggestions that may accomplish the goal of accessibility without leaving wounds, injuries, and permanent scars.

It wants its political victory—not its alleged social goal.

The point I want to make is this: Nothing can be accomplished in the health care system without dialogue, without consultation, and without a strong partnership involving Government, health care providers, and consumers.

I think we provided that back in 1983 when we undertook our series of extensive reforms based on wide consensus and agreement.

What worked in 1983 could be just as effective today. A new consensus for improved accessibility and more effective services can and must be built on the system already in place.

The time has come to stop the confrontation, the threats, and the insults.

The time has come to sit down and build anew.

There are many reforms needed in the health care system. Reforms that mean much more to more people. Better care for the elderly, more specialists in Northern Ontario, better community-based care, out-reach programs in hospitals, better co-ordination of services, paramedic programs, CHC's, HSO's, improved nursing homes, nurse practitioners.

Instead of all these, the government seeks one reform. The cost of the *one* is to give up all chance for all the other reforms for perhaps five or ten years—a tragic price to pay for a political victory.

I have a message for Premier David Peterson today.

Your government can have a ban on extra billing *or* it can have some of the health care reforms this province needs.

You can have a ban on extra billing or better care for the elderly.

You can have a ban on extra billing or more co-ordinated home care services.

You can have a ban on extra billing or doctors working together with nurses to provide more nurse practitioners.

You can have a ban on extra billing or the kind of health care system the people of Ontario want and deserve.

But, Mr. Peterson, with the damage you are now doing, you *can't* have both.

There is no dishonour in Government retreating, having a second look, admitting it needs more time. There is great dishonour in rushing through legislation that is wrong—or ill timed—or insensitively handled—or politically convenient.

My plea to the Government: Stop! Pause! Think! Negotiate! Your children and mine want to inherit a system united by negotiation; *stronger* by *reform*; *progressive* by *co-operation*.

Your style will leave instead a system *fragmented* through *confrontation*; stale by Government control; *dispirited* by subservience; and wounded by the loss of some of our best people.

The time has come to strengthen a health care system that is the pride of our province and the envy of the world.

The appreciation of the audience was expressed by Michael A. Meighen, Second Vice-President of The Empire Club.

F.G. (Buck) Rodgers

Author, *The IBM Way*

RIDING THE WINDS OF CHANGE

March 27, 1986

The President
Harry T. Seymour, Chairman

Mr. Seymour

Reverend Sir, distinguished head table guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today Francis Grover (Buck) Rodgers, author of *The IBM Way* and former Vice-President of Marketing with responsibility for IBM's worldwide marketing activities.

I has been said that IBM stands for ''I've been moved'' because of its seemingly frequent transfers of employees. That is, ''people have perceived IBM to be an impersonal monolithic organization that disregarded the rights and feelings of its employees: a company with no wild ducks, its representatives all cloned to fly in formation.''

Founded in 1914, as the computing-tabulating-recording company, IBM employs 400,000 people worldwide and generates annual sales in excess of $50 billion and net earnings of close to 7 billion.

As summarized in the 1985 annual report:

''IBM's operations are primarily in the field of information-handling systems, equipment and services to solve the increasingly complex problems of business, government, science, space exploration, defense, education, medicine, and many other areas of human activity.''

IBM's products, therefore, ''include information-processing products and systems, programme products, telecommunications systems, office systems, typewriters, copiers, educational and testing materials, and related supplies and services." Forty-three per cent of all product sales occur in overseas markets.

Thomas J. Watson Sr., the founder, built IBM around three fundamental principles: the individual *must* be respected; the customer *must* be given the best possible service; and excellence and superior performance *must* be pursued.

How rigourously are these principles pursued today? According to Rodgers, trainees see the company's code of behaviour at work, in the office and in the field, during their very first week on the payroll.

How does the constant pursuit of these principles impact upon IBM's results? The 1985 annual report states that:

"In a trying year for our industry. . .as well as our company. . .IBM's resilient performance stands out and reaffirms the fundamental soundness of our business. . .There is reason for continued optimism about IBM's long-term prospects in the underlying and growing need to manage information and improve productivity in virtually every aspect of human activity. . .In part, our confidence is built on IBM's product line—already strong and growing stronger as a result of continuing investments in research, development and engineering.

"As a result of our history of continuing investment in more efficient plant and equipment, unit manufacturing costs reached an all-time low last year. . ."

Buck Rodgers served IBM for thirty-four years, taking early retirement in 1984 to pursue his many other interests, including the authorship of *The IBM Way*. For the last ten years of his career, he was Vice-President of Marketing, with responsibility for IBM's worldwide marketing activities.

Rodgers provides a few insights into his character, in his book, and I quote three of them:

"I like people!"

"I feel good about myself!"

"For me. . .to be given responsibility is an honour."

His book's overwhelming message, initiated by Thomas J. Watson Sr. in 1914 and referred to earlier in this introduction, is that every company must have a firm framework of goals and beliefs, constantly reinforced among its employees.

Ladies and gentlemen, it gives me great pleasure to introduce F.G. (Buck) Rodgers, author of *The IBM Way*, who will address us on the subject, "Riding the Winds of Change."

Buck Rodgers:

Ladies and gentlemen, I'm delighted and really honoured to be with you here today for several reasons. First, because of the great respect in which The Empire Club is held. Second, I know that many of you in this room happen to be customers of the IBM Corporation and, since I *did* run IBM's worldwide marketing, I would be remiss if I didn't acknowledge that. So, if you remember nothing of what I'm going to say here today—and I know that possibility does exist—would you remember the words "Thank you very much"?

"What you *are* thunders, for I cannot hear what you say." That quotation from Emerson simply says it is not words that get things done in this world of ours. It is action, tactics, strategy, implementation. It's inspection, it's measurement, and, above all, it is recognition.

That's why I think the book, *In Search of Excellence*, is so successful in America, in Canada, and around the world. Perhaps *The IBM Way* will do as well. It emphasizes nothing new, but hits a nerve from the point of view that it is attention to detail, it's doing things right the first time, it's being part of a people-caring operation, and, above all, being market-driven, that allows us to be successful and hopefully to ride the winds of change.

If there's any one thing I learned in the 34 years I was with the IBM Corporation, it's that change is always with us and change can also be very psychological. To the fearful individual, change is threatening because that person always thinks things are going to get worse. To the person who is hopeful, change is encouraging, because that person thinks things may get better.

But, to the individual who has a belief in himself or herself, change really is a stimulus because that person still feels that, in this world of ours, one person can make a difference. Every day, each of us in some way looks for those difference-makers. The old adage still holds that there are three types of people: those who make things happen, those who watch things happen, and those who ask "What happened?" Nobody really wants to be in the latter category, so what are some of the changes you and I had better be able to understand? If you can't articulate change either from an internal or an external point of view, then change controls you. Rather than the more preferable way of you and me controlling it.

I've travelled the world for the IBM Corporation, maybe in 100 of the 130 countries in which we do business. In any place you want to name, the first thing I see is preoccupation with the quality of life. It's fashionable to challenge the work ethic. But what I think is really happening today is that people are saying:

"I want to give a fair day's work for a fair day's pay. In the process, I don't want to sacrifice family and I want to be involved in social responsibility type of activities."

On that latter point, you and I have a "civic rent" to pay in our lifetime. Each of us has to decide in our own way what that civic rent is. Maybe it's involvement in mental health programmes, or drug abuse programmes. For my part, in the last twelve to thirteen years, I have been lecturing on some of the major campuses of America and I've been picketed in some of the finest schools down there, as a matter of fact. Wherever I go, there is nobody I run into, no customer of IBM, none of you in this room, none of my kids, who want to be told *how* anymore. But you sure do demand to know why.

For instance, at IBM, if we're ever questioned on price or terms and conditions, which has occurred, and you or your people respond by saying, "That's policy" or "That's the way it's always been," you're taking your organization down the road to being a dinosaur. People today want to be able to go home at night, look into a mirror, and say:

"What I did today was worthwhile."

We have long left what was known as "The Decade of the Sixties" and the early Seventies—the "Me" generation. . . "I am I," and moved into what I've called the "Be" generation. You can be anything you want, depending on your own skills and your own capability.

The second change that's taking place is a movement from a vertical to a horizontal concept of managing. If I were to show the IBM Canada organization—or, heaven forbid! the IBM Corporation's organization—or take any of yours and display it here, it is typified by a vertical structure.

But you and I know how things get done, and that we interface with people, so the Eighties and the Nineties will be known as a time when management moved to a horizontal concept where you deal with people on the basis of what they know, rather than where they sit in the hierarchial structures of a business.

If you've ever had any futurists here at your meeting, they call this the "world of the knowledge seekers." Now, to me it's nothing more than when I had a problem at IBM. I went to where I got the most accurate and timely response. I couldn't care less where that person sat in the management structure. It is a respect for a person's intellect and a person's capability.

Another management change I've seen on a worldwide basis is that nobody wants to deal with information historically. I couldn't care less about numbers from yesterday; I am more interested in what is happening today. I've coined this phrase "occurrence management." People build into their organization the capability to find problems and take corrective actions, but the smart operators find out where the strengths are within their companies. For example, if a product is selling well in Dallas and not in Seattle, the heck with Seattle! You go to Dallas and find out what they're doing right, then spread that over areas of weakness.

Now a thing that's driving both change in lifestyles and the way you and I manage is productivity. What do most people think about when they hear the word "productivity"? Working harder? Working longer and under increased pressure? That's not what it is. The dictionary says productivity means producing abundantly.

C. Jackson Grayson, formerly dean of the Southern Methodist University's business school and now head of the American Productivity Centre, says "Output over input." Peter Drucker, who writes and teaches on business methods, calls it "the first test of management."

I'm going to give you one that's anonymous:

"Productivity is the untapped potential generated by the creative interchange of new ideas, new technology, and good people who are skillfully and consistently managed." And I stress the "skillfully and consistently managed." Where there has been a lack of, or a drop in, productivity, I don't necessarily tie that back to a lack of Research and Development. It may happen every now and then. It may be due to educational training.

Too often in the United States and in Canada, we forget that the greatest asset is people and that it's important to make them feel that what they're doing is significant. You try to motivate people so you can raise the productivity levels, which in turn affects the bottom line. Then you wind up having some fun in the process.

One of the things that is driving productivity up and affecting lifestyles and management styles is technology. In 34 years, I have lived through the vacuum tube, the transistor, solid-logic technology, and now we're talking about other techniques.

I was talking to some people from Research not long ago and they were discussing the current injection logic circuit. It switches information in seven pico-seconds. It's the speed of light! You cannot go any faster than that. Fortunately, they were Nobel Prize winners and they said:

"Don't worry. We'll find a way to circumvent that limitation."

Perhaps the greatest technological breakthrough in this decade will be the ability to speak to a machine and have it respond. So the next five years will dwarf the last ten in technological innovation. But, like everything else, it comes back to how creative and innovative you and I are.

So against change there had better be some things that you and I don't change. Now, to put this into perspective, if we were to go back to 1947 and take the top one hundred companies in America and ask yourself where those same companies are today, would you be surprised to know that only sixty remain in that select circle?

Now, if you really want to go back in time to the Industrial Revolution and take the top twenty-five corporations in America and ask where they are today, would you be surprised to know that only *two* remain? One of them because it merged with six others. Three are gone. And when I say "gone" I mean for a long long time. The rest are still functioning, but they're nowhere near any leadership role.

So people ask: How does one organization with the same product line, the same cyclical environment, succeed when another fails? Now, they say those that succeed have a charismatic leader or put more bucks back into research and development, more back into education and training, or didn't get fat, dumb, and apathetic as an organization. They stayed light on their feet and understood that the customer came first. All those factors are valid.

It is said that those who lost their way and dropped by the wayside failed to perceive what was really happening. Everybody here might know Parkinson's old law. I'll give you Rodgers' new law today. It says that, once an organization reaches a certin size, it can exist for an indefinite period solely talking to itself before it dies. Meaning the business failed to perceive why it was in business. Complacency, the most insidious disease of any organization, large or small, takes hold.

I submit to you that the real difference between success and failure—and I don't care what size you want to talk about in companies—is simply how well that organization develops the talents and energies of its people, regardless of the positions that those individuals hold.

Look at any institution or organization that has weathered the test of time, and you will see that they owe their success to having a set of beliefs and principles that was clear and understandable within the organization and, more importantly, became visible to the people who dealt with that company. Now, if that's the case, what is the magic?

I still believe that, in this world of ours, there happens to be magic. Magic is what Harry talked about. It comes from adhering to and practising three principles. The first is simply respect for the individual. Boy, is that easy to say and very difficult to maintain!

Now what do I mean by that? Respecting the individual is returning phone calls and getting away from this game of phone roulette that goes on. I call you and you call me and we never meet; somebody's in a meeting and some day we may get together.

Respect for the individual is that very person in your organization, and I don't care where they are, knows that at some time their management is going to sit down and give them an evaluation from the standpoint of first saying:

"Here's what I expect you to do. Here are your goals and objectives."

From which, after a period of time, they will be evaluated. Respect for the individual is paying people on performance and for what they actually achieve. One of the greatest prides in the IBM Corporation, with 400,000 employees, is that no employee has ever been laid off. People say, well, if I was as big as IBM, I might be able to do that, too.

The fact is that you get to be big because you perform these things on a day-to-day basis. Respect for the individual is getting out of your office and walking down to somebody else's—which would surprise someone anyway, if that was done—and just saying thanks for what was accomplished. You can take that from the simplest approach, common sense orientation, to the most sophisticated concept you can think of to motivate people.

The second thing you say as an organization is that you're going to give the best service of any company in the world. Not the best in insurance, not the best in computers, not the best in real estate—you decide you're going to compare yourself to the best.

Pick who those companies are in Canada. Pick who they are on a worldwide basis. Then analyse what those companies do and see how you stack up against them. And that sets a tone of excitement within an organization.

I don't know what it's like here in Canada, but I tell you that in the United States when we get good service, we're surprised by it. It ought to be the other way round. And it doesn't involve putting complex things in place or a great expense.

How much money does it take, when an organization receives a complaint, to respond to that complaint in twenty-four hours? I didn't say to solve the problem in twenty-four hours. I'm just talking about someone calling.

I can tell you that at IBM it's mandatory to respond to a complaint within that time frame, by wire, by phone, by letter or in person. You tell someone you heard them, then you come back with a time frame for giving those people an answer.

I live in Connecticut and, on the turnpike where I live, which goes all the way up from New York to Boston, McDonald's has replaced Howard Johnson's as restaurant stops. I have nothing against Howard Johnson's, but since McDonald's has been on the turnpike (since last May) business is up 50 per cent.

One reason is that McDonald's inspects its restrooms every thirty minutes. I happen to be a friend of Dave Thomas who runs Wendy's, a restaurant similar to McDonald's. Now you know where I eat.

I was with Dave at Purdue University the other day and he said:

"I never went to college, but I've got more apron time than anyone else in this room."

What did he mean? He understood the customer.

I was with Sam Walton who owns Walmart. He is reported to be the richest man in America. He meets with his three thousand store managers across the country. What he does is he gets in his airplane, one of his few luxuries, every Monday and comes back Thursday night—and so do all his other officers. And where do you think they are? They happen to be in the stores, interfacing with the people there, and the customers.

I happen to be on the board of Milliken, one of the largest textile manufacturers in America. They don't call their people employees, they call them associates.

So, there are a lot of little things you and I can do to convey the fact that outstanding service and respect for people are what we're trying to attain.

The third thing separating successful individuals and organizations from the rest is that you expect excellence from what people do. For 34 years, every day of my business life, I looked over my shoulder for the footsteps—and some days they were louder than others and you have to have those days as well. Nobody has a right of tenure.

It's fun when you get to a college campus, as I have done, and debate that particular subject. But you and I have to earn our way.

Successful organizations I've seen have similar objectives. Customer satisfaction, sure; opinion surveys and all that. But there are two others worth mentioning. One is—and this is for every first-line manager in whatever function—a voluntary attrition number.

Look at your department and don't expect to lose a percentage of people above a certain number. If you find that number is out of whack, you call the individual in and ask what is happening and what you can do to help. If he can't turn it around, you get somebody else who can. Everyone ought to also have an involuntary attrition number as well and get rid of those people who aren't doing the job. Now, in whose best interest? The best interest of the customer.

That's not callousness. It just says, with respect for the individual, a person only has the right to be told they're not producing, and then given a chance to correct any deficiency and, if they can't, they're gone.

There was an article in *Business Week* magazine in which supposedly one of IBM's top executives was misquoted—at least, that's what he said. The question was: In IBM's marketing organization, when somebody fails, does IBM in its benevolence and paternalism find another job for them? No, we don't; we fire them. But they have been told that they're not producing and had a chance to correct any deficiencies. Those beliefs and principles produce a purpose.

I don't know how many of you stop and ask, What is the purpose of your organization? If you can't articulate one, I'll tell you what I think it ought to be—creating new customers, maintaining old customers, and making people want to do business with you. I didn't say love you. Not everybody loves IBM. Do I know that! They respect you, no question about that. And they give you the business, because you're giving the customer value.

Now, how do you really make those things come alive? How do you really hold onto beliefs, particularly as the organization expands and grows? Or, if you're in an organization where there is little growth, how do you do that? Then it's an even tougher challenge.

Well, I think you accomplish those things by individual acts of heroism. Now, around the world, in Europe, in Germany, in Japan and in the United States, there's a big debate as to whether we have heroes.

In the United States, there's Lee Iacocca, whether on the cover of *Times* or of *Newsweek*. He's certainly held up as a hero. President Reagan sometimes falls in that category, particularly after a summit meeting. (The late President) John F. Kennedy was a personal hero to me.

You've got to have people you can look up to. There are some people in the United States who think that "The Refrigerator" (William Perry of the Chicago Bears) happens to be in that category. There are always people we can learn something from.

But do you know who the real heroes ought to be? You and I. How many times have you sat in a meeting like this, or at your own organization, or where you witnessed lousy service on an airplane or at a hotel, and heard somebody say:

"Why doesn't someone do something?"

Then you remembered that *you* were someone. One person can still affect what goes on. I never believed I could change the world, but I do believe I can have some affect on those people around me. So, as I was thinking about early retirement from IBM, I thought: I'm going to define what leadership is.

Leadership is the ability of a single individual, through his or her actions, to motivate others to higher levels of achievement with the freedom and opportunity to do so. Leadership, first of all, is the ability to prioritize.

All my life, I've lived with minutes. Do you know how many pounds of paper you and I have to deal with every year? Two thousand pounds. And I know it's right because I read it in an airline magazine. With only five per cent of that worth reading, by the way.

But the secret is to be able to take all the things that immerse us and make a decision every day between what is desirable and what is necessary. If you err on the necessary side, your business is going to prosper. I decided a long time ago, and I don't know when it was, that I would never take on more than five objectives from IBM at a given time, and

I never gave anybody more than five.

Now, when that happens, you've got to be willing once in awhile—when somebody calls you, let's say from the top—to respond with "I don't know."

I've never failed to have that work for me, provided that I got back with an answer within a reasonable time frame. And that's a lot better than hip-shooting an answer and then wondering if you had all the facts and worrying about why you went ahead and said that.

Leadership is the ability never to separate accountability from responsibility. How many times have people been given the freedom to fail, but never held accountable for what takes place? Or worse, people held accountable but never given the freedom to make a mistake?

You and I, in our vocabulary of management, want to delegate. We pass the decision down to somebody with the idea of getting their insight, and then we smother them. We look over their shoulder to the point that all of a sudden their decision gets passed right back to us, which is known as *covermanship*, and nobody learns a thing in the process. Give people a chance to make a mistake. When the mistakes exceed the pluses, that's when you have your one-on-one type of session.

Leadership is also seeking advice. You're saying, "I didn't need to come here today to learn that. I know why you seek advice."

You seek advice because you want to get some new viewpoint, a clearer perspective.

I do it for two reasons. One, because I've found people brighter than I am in this world, although I hate to admit it. But it's very good every now and then to get a whole new viewpoint.

The other, more fundamental, reason for seeking advice is this: it is the greatest compliment you can pay to anybody—saying you think enough of them to involve them in the problem.

I want you to know I never turned down any money that

IBM gave me, but I have been more motivated—and I think you are, too—when someone says:

"Can you help me with this particular project?"

If you practise this, then, you're halfway home toward resolving a tough problem.

Leadership is also knowing when an extra effort is required. There are a lot of books out today, and people on the lecture circuit talking about peak performance and how you've got to operate at one hundred and twenty per cent every day of your life. I wish I could! I never got to a hundred. I tried, but I knew that in my business and personal life there would be times when an extra effort would be required and I would have the capability to call on my reserve.

For example, I've been running competitively for about thirteen years. When I get into some long distances, there's a French proverb that has helped me:

"One can go a long way after one is tired."

Whether it's an extra day or an extra week, there are times when you're going to have to say to your people and to yourself:

"This is where you and I are going to have to put some blood and sweat into this thing."

But you can't operate that way every day of your life. I don't think it is possible.

Leadership is also maintaining an enthusiastic attitude. I've been a great fan of (the late British Prime Minister) Winston Churchill for years and years. He realized that, if you have to climb the mountain, there'll be problems on the way up. That's not being a pollyanna or naive. You have to be able to say—and want your people to think—that there isn't any problem that cannot be solved or attacked.

In my business life, I have picked people to work beside me who felt that they could overcome any obstacle, rather than people who had more grey matter but never put it to work. That's why there's another proverb that says:

"Age may wrinkle your face, but lack of enthusiasm will wrinkle your soul."

Leadership is also the ability to anticipate, to plan, to think ahead. That's why I talk about understanding the environmental factors. The generals of the world understand what the term ''strategy'' means: strategy is the craft of the warrior. It is the ability to understand and convey your strengths and weaknesses and look at what the competition can or cannot do before you plan your attack.

Hockey player Wayne Gretszky understands that the word ''anticipate'' means. His thesis is:

''I skate to where the puck is going to be, not to where it has been.''

And it's not a bad philosophy to follow in our everyday activities.

In the United States now, there is a big NCAA basketball tournament going on. I remember listening at this time last year to a colour commentator talking about one of the All-Americans.

''Do you know why Chris Mullins is such an All-American?'' he asked. ''He knows where he's going to pass the ball before he gets it.''

Every business organization, large or small, ought to have a base plan. It's a plan you're committed to, a plan that you're measured on. But also ought to have what is known as a goal level, one level above that which you're being asked to achieve. And then, you'd better have a risk plan. You'd better have a contingency plan, and you'd better do it in an atmosphere when things are not so hectic, so you're not making foolish decisions in the heat of battle.

Leadership is also winning. That's why you and I keep score. Everybody talks about the fun of competing, of being in the arena, and I'm all in favour of that. But isn't it more fun to win? Winning is living. Every time you win, you're reborn, and, every time you lose, you die a little. When an organization finds itself slipping, and starts to accept and excuse those things affecting the bottom line, then that becomes insidious.

Above all, leadership is one word. If there is one thing I'd like to have you remember above anything else of what I've said today, it is this. About thirteen or fourteen years ago, I was lecturing at the Purdue University campus. There was an open forum with a lot of people from the business school, engineering, and arts and sciences. I can picture yet today the young, attractive woman in the back who raised her hand and said:

"Mr. Rodgers, is there any one thing above all that you would like to have us remember? Is there one word more important than anything else you've said here today?"

I answered that question so quickly then, and I've answered it one thousand times since, the same way. The word is integrity. Where people can count on what you say as well as what you do.

That's why I began my talk with:

"What you *are* thunders, for I cannot hear what you say."

If you lose wealth, you lose nothing. Losing health means something. But if you ever lose your character or your integrity, you literally have lost everything.

We are living in a very exciting world, a world where things are moving so fast that it takes nerves of steel just to be neurotic. Maybe you don't sense that, but I do. But against change, whether it be the few I've mentioned or others, there had better be some things you and I don't change.

Then we make those things come alive by deciding that we honestly are difference-makers. We have some fun in the process and we avoid what Eric Fromm describes as the "boredom and the anxiety and the meaninglessness of life" that surrounds many of us.

Eric Fromm talks about the person who sits in front of a bad television program and doesn't know he or she is bored. Fromm talks about the fact that we have killings in our streets here in North America—forget about what goes on in Beirut—and you and I have no reflection of religion. Fromm talks about what nuclear holocaust can bring, and you and I have no fear.

Fromm talks about the fact that sometimes we see corruption at the highest level of our government and then people remain apathetic and don't even bother to vote. Or the worst error in life of all, the person whose only goal is material wealth, who doesn't understand his anxieties but his ulcers speak louder than his mind.

So, if I can leave with you the paraphrasing of a poem that I learned a long, long time ago, which I think has applicability to everyone here in this room and what our future holds:

There is an ancient claim
That we win or lose within ourselves.
The shiny trophies on our shelves
Can never win tomorrow's game.
Yet you and I know deeper down
There's always a chance
To win the crown.
But when we fail to give our best,
We simply haven't met the test.
Who could ask more of a woman or man
Than simply giving all within our span?
Giving all, it seems to me,
Is not so far from victory.
So you and I control our fate.
We open up, or we close, the gate
On the road behind or the road ahead.

And I simply wish you the best on the road ahead.

The appreciation of the audience was expressed by Bill Karn, a distinguished Past President of The Empire Club.

J.M. "Jack" MacLeod

President and Chief Executive Officer,
Shell Canada Limited

OPPORTUNITIES FOR THE 1990s

April 3, 1986

The President
Harry T. Seymour, Chairman

Mr. Seymour

Reverend Sir, distinguished head table guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today J.M. "Jack" MacLeod, President and Chief Executive Officer, Shell Canada Ltd.

In a research report dated March 5, 1986, a leading United States investment dealer stated that:

"The fundamental changes in Saudi crude-oil pricing policy. . .securing a significantly greater share of the world export market through netback pricing. . .has been primarily responsible for the dramatic decline in world oil prices since the beginning of the year. . .However, even Saudi Arabia is probably surprised by the rapidity and magnitude of the crude-oil price decline. . .Furthermore, the kingdom is now aware of and, more importantly, encouraged by, the effects of the recent price slump on the capital and exploration spending plans of the major integrated oil companies.

"Clearly, one of the most assured ways to permanently increase demand for. . .low cost. . .Saudi and other OPEC crude-oil exports. . .is to severely inhibit oil and natural gas reinvestment in the. . .high-cost producers. . .principally . . .the United Kingdom, the United States and Canada.

"Against this remarkable reversal of events. . .major producing provinces like Alberta. . .and companies like Shell. . .find they must reassess their future plans with considerable expediency and thoroughness. Contingency plans must be developed encompassing several price/time scenarios."

Evidence that this reassessment is well under way appears daily. Today's "Report on Business" said that "Shell Canada Ltd., bolstered by Alberta Government assistance of as much as eighty-eight million dollars, has dispelled some of the gloom in the oil patch with a two-hundred-and-sixty-million-dollar experimental oil-sands product. . . Alberta has given the Calgary-based oil giant a three-million-dollar grant to assist in the ten-million-dollar first phase.

"However, Shell cautioned that it will assess the new solvent extraction method for taking oil from the tar sand for two years. . .and will not make a decision on proceeding with the two-hundred-and-sixty-million-dollar construction until the end of 1987."

Decisions of this magnitude require strong leadership born out of long and varied experience in the petroleum industry. Our guest today is eminently qualified on both counts.

Jack MacLeod is described by friends as a "tough, pragmatic, no-nonsense character, who plays a terrible game of golf." A native of Cape Breton, MacLeod studied metallurgical engineering at the Nova Scotia Technical College before joining Shell on graduation in 1954.

From this point, he advanced through a number of varied management appointments of increasing responsibility, including his appointment as Executive Vice-President in 1982. He held that position until he went to London to join Shell International Petroleum Co., part of the Royal Dutch Shell Group, in 1983. He assumed his current responsibilities on May 1, 1985.

Notwithstanding his major corporate responsibilities, Jack MacLeod also found time to serve as chairman of both The Canadian Gas Association and The Canadian Petroleum Association.

Ladies and gentlemen, it gives me great pleasure to introduce J.M. "Jack" MacLeod, President and Chief Executive Officer, Shell Canada Ltd., who will address us on the subject, "Opportunities for the '90s."

Jack MacLeod

Mr. Chairman, special guests, ladies and gentlemen, it is a great honour for me to be here with you today. Months ago, when I accepted your kind invitation, I had in mind that my theme would in some way relate to long-term challenges and opportunities for Canada. I was also convinced that one of the anchors for my remarks would be a vibrant petroleum energy sector wherein increasing investment and activity levels would be bolstering our nation's opportunities—both short and long term.

That conviction seemed appropriate so shortly after the Western Accord and related actions by governments had largely unshackled our industry from excessive taxation and oppressive control. Granted, there remained uncertainty about international oil prices.

Clearly, something happened on the way to the forum!

On reflection, however, I have found it no less appropriate to frame my remarks within the title "Opportunities for the 1990s." Within that framework, I propose to deal briefly with three issues that I suggest have in common a critical need for management of change to position our industry and our country favourably for opportunities for the 1990s. Those issues are volatile oil markets, national fiscal planning, and international trade.

Since the early 1970s, it has become ever more evident that *planning for uncertainty* and *management of change* are critical to success in our industry. We have had at least our share of uncertainty and change to deal with.

Today, we must once again cope with a major discontinuity in our business environment. The implications of this discontinuity and how we manage in response to it go far beyond the oil and gas community. They cover a wide spectrum of the Canadian business community, reach the consumers of our products and, in turn, affect provincial and national economic performance.

The price of our base commodity, oil, has dropped like a stone—some sixty per cent in recent months. Furthermore, there is no compelling evidence that a bottom has been reached. Key questions are: What led to this event? and Where is price headed?

Within the industry, until quite recently, we have been cautiously optimistic that some reasonable degree of oil-price stability would prevail. Our conventional wisdom was that price would most likely continue a modest decline in real terms throughout this decade. We foresaw that, during the 1990s, the oil market would become demand-driven and real price would increase—gradually or otherwise—depending upon the relative individual influence of major Middle East producing countries.

While holding this general view, we have been acutely conscious of the forces in play in the market since the two oil shocks of the 1970s. Particularly since the 1979 shock, they have been exerting an increasingly destabilizing pressure on the market. These forces have included decreasing oil demand (ten per cent in six years), increasing non-OPEC production (twenty-eight per cent in six years) and growing diversity of interests within OPEC.

Notwithstanding this pressure, OPEC marshalled sufficient cohesion to manage the market, and consequently oil price, in a reasonably orderly way until late 1985. The key to OPEC's market management was Saudi Arabia's willingness to play the role of swing producer, within an otherwise somewhat loosely observed system of OPEC production quotas. The result was the unfolding over the last few years of the modest real price decline scenario.

Last October, Saudi Arabia decided it would no longer play a disproportionate role in limiting production. The market has collapsed for the simple reason that, since that time, the aggregate supply available from willing sellers has exceeded demand.

Failing new action by oil producers to control production, it appears that an average surplus of supply availability of some two million barrels a day will overhang the market during 1986. Furthermore, although the numbers can vary somewhat, it is entirely possible that a surplus of some significance can overhang the market for the next several years. This suggests depressed prices for some considerable time.

It is also possible, however, that within a few months the key players may re-exercise sufficient production restraint to at least partially restore price levels. This, despite it being highly unlikely that non-OPEC producers will reduce the relatively modest volume of some seven million barrels a day that, in aggregate, they trade internationally. This, also despite the fact that between last October and now, OPEC members have utterly failed to agree on allocation of production quotas that would effectively balance the market.

In the industry, we have no way of forecasting what will actually happen, or when it will happen, between the boundaries of some price restoration and continued price collapse. Although we cannot forecast specific events, I believe that four conclusions can be drawn.

Firstly, the price discontinuity we are experiencing signals an extended period of price volatility. Secondly, the band of uncertainty within which we must plan has broadened dramatically. Thirdly, it is not likely that we will see $20 U.S./barrel or higher prices for some considerable time.

I shall withhold the fourth conclusion for a moment.

The sky is dark and clouded, but it has not fallen.

Oil is a depleting resource. It continues to be a valid assumption that the market will become demand-driven during the 1990s, and environment for increasing price trends. It is the environment in which, once again, oil resources should provide a more sustainable and predictable contribution to economic strength and stability of producing nations, including Canada.

In the meanwhile, we have entered a period of severe adjustment in the industry. Last week The Canadian Petroleum Association announced the result of its survey and analysis of capital-expenditure plans for the resources segment of the industry. Compared with 1985 expenditures of ten and a half billion dollars, the CPA estimates that original 1986 plans for expenditures of some eleven billion dollars are being revised down to seven billion dollars, some forty per cent of which has already been spent.

It is apparent that severe adjustment has some severe implications, both internationally and here at home. Those implications include an exacerbated problem in management of corporate debt within our industry. They involve a considerably diminished capacity by our industry to *maintain*, much less increase, employment levels and to contribute to gross national product in the short to intermediate term. Some, but not all, of the diminished contribution by our industry will be offset by the benefit of lower energy prices to other sectors of the economy.

My fourth conclusion, withheld a moment ago, is that with the present outlook, skillful management of change has become absolutely critical to preserving the ability of our industry to grasp opportunities over the next few years and in the 1990s.

In summary, our industry must find ways to ensure that the opportunities for developing new reserves, which will be needed in the long term, are not lost. As best we can, we must keep many of the opportunities on hold, but alive during the depressed period of prices, and maintain a balanced view of the short term versus the long term. We must maintain financial stability within the industry and provide a fair return to investors.

Management of change is in progress within our industry, particularly in the resources segment. It is extending to our relations with governments concerning royalty and taxation levels. For those of us in the refining and marketing segment of the business, it must extend to our customer relations.

Speaking for Shell, it has been, it is, and it continues to be our purpose to share the benefit of lower oil prices fairly with our customers. But the key words are *share* and *fairly*, because it is essential that we retain some of this benefit internally to strengthen our capacity to provide our customers with the improved service that they deserve and that we are committed to provide.

It is also essential that we generate cash from all segments of the business to fund the highest practical level of investment in the short term and, later on, in the opportunities that will increase in scope in the 1990s.

In my view, skillful management of change has become as critical for our government as for our industry, if our nation is to have the ability to grasp opportunity in the world around us in the 1990s. There are many dimensions of management of change by governments. Two that I wish to comment on briefly are national fiscal planning and international trade.

Successful management of change in these areas requires the setting of objectives, economic restructuring and tough fiscal control. The two issues are becoming even more closely interlinked as we face a future where the major driving forces in the world economy are technology and trade.

There are clear signs of danger for Canada in the future, unless the need for change is accepted and managed skillfully.

Despite our trade surplus, our share of total world exports has been declining. We have been a resources-based economy. As such, individual industrial sectors—forest products, mining and agriculture for example—have been subject to cyclical performance. Now we are in a severe down-cycle in petroleum. Resources-based prosperity can no longer camouflage weakness in other economic sectors.

Resource commodities are losing their high-value status. We can see the successful invasion of markets—including Canada's—by products laden with information and highly sophisticated technology. Even today's automobile is not so much a product of steel, plastic and rubber, as it is of computerized functions, precise geometry and fine instrumentation. Today the highest value-added component of a car is knowledge, not the metals and plastics that are used to build it.

Our international competitors know this. The world-ranging products of Japan, Korea, and others are visible evidence of a massive technological buildup by our competitors and of their drive for world markets. If we fail to meet that competition, we do so at peril to our national prosperity. We would fail as a nation to grasp fully the opportunities of the 1990s.

Canada's ability to successfully adapt to and manage these profound changes will be greatly strengthened, I believe, by commitment to tough fiscal control and economic restructuring through free trade. I would now like to deal with each of these briefly.

As a country, we have come perilously close to losing control of our financial flexibility. As a country, we are like a corporation with its debt/equity ratio wildly out of whack. As you know, corporations in that state do not have much room to grow, meet the competition, innovate or manage change.

The federal government *deficit*, as a proportion of our gross national product, has grown alarmingly in the last few years. Our performance is worse than that of the United States and much worse than those of Germany and Japan. We are virtually at the bottom of the performance ranking among major developed countries.

In 1967, Canada's centennial year, the federal *debt* amounted to eighteen billion dollars. By 1985, it had risen to two hundred and twenty-five billion dollars. Without tough action to control the yearly deficits, it would rise to some four hundred billion dollars by 1990. It is gratifying that the Government has set out to reverse this trend—to reduce the deficit to twenty-two billion dollars or three and one half per cent of GNP, by 1990.

Some skeptics wished for more serious reductions in government spending and less reliance on tax increases. Some skeptics question whether interest-rate performance, declining oil prices and follow-through on implementation of promised spending reductions will frustrate achievement of the goal that the budget set. To a degree, I share all of those concerns.

However, I believe it is of the utmost importance that we support the significant step in management of change that this budget represents. This is important as a contribution to setting the climate in which government can take the next essential steps. It is important that the international community hear of our support as part of the process of restoring international confidence in the Canadian economy.

The Business Council for National Issues, of which I am a member, has strongly supported the budget. In concluding this segment of my comments, I would like to quote from the analysis of the budget by the C.D. Howe Institute, of which I am a director:

". . .the February budget was a significant installment in a credible fiscal plan, but the next installment requires major structural changes in spending and taxation. There are grounds for skepticism that the Government has the political will to follow through with what are likely to be very difficult changes in the third year of its mandate. But the Minister of Finance has proven the skeptics wrong before. If Canadians can be convinced that the deficit is their problem, as well as the Government's, and if they can be persuaded to support the further changes that are essential, 1986 could be a significant year in securing Canada's long-term growth prospects."

I believe all of us should see and support the budget in that context.

Let us turn for a moment to the international trade issue. I consider that the Government has taken a commendable initiative in moving toward bilateral free trade negotiations with the United States. Credible fiscal management will enhance our position of strength in these negotiations. But the trade issue has, in its own right, a critical need for skillful management of change.

In the trade area, we are becoming vulnerable to forces outside our control. Unlike most industrialized nations, we possess no certain and secure access to a major market, although we rely heavily on such markets. You know the statistics as well as I do. The U.S. takes about seventy-five per cent of Canadian exports, a trade that supports some two million jobs or about twenty per cent of our work force. This two-way trade is the largest in the world, one hundred and fifty-five billion dollars in 1985. Just the *increase* in Canadian exports to the United States that year exceeded the *total* of Canada's exports to Europe and Japan.

But is this market secure? Many Americans are disenchanted over their country's trading deficits. Last year, the U.S. had the worst trading record in its history.

Protectionist sentiments are growing in the U.S. This poses a threat to Canada. In fact, we have already been hurt by and threatened with quotas, higher duties and surcharges on a wide variety of our export products.

Here at home, we talk of Canadian options, even a yearning for the *status quo*. The *status quo* is a bankrupt response to fast-moving events. And they are making less attractive any option other than a comprehensive trade package with the U.S.

A bilateral agreement would open up secure access to our major market, our closest neighbour. There would be a rationale for specialization of Canadian industry and it would make viable larger, lower-cost production runs. It should point the way to greater competitiveness by Canada in global markets beyond the United States.

To quote the great U.S. inventor and diplomat, Benjamin Franklin: ‘‘No country ever was ruined by trade.’’ One may add that a great many have built prosperity on trade—including, of course, Canada.

Liberalized trade has been an objective of various Canadian governments for half a century. Now we have an historic opportunity to take the next logical step in this process—to negotiate the removal of the main barriers to trade with the world's premier market.

There are fears that we cannot compete on equal terms. Or that we may lose our cultural identity and a degree of our sovereignty. I for one have considerably more confidence in our underlying strengths, our survival sense, our negotiating skills, and our willingness to accept a challenge.

The Canadian writer and journalist, Bruce Hutchinson, some years ago expressed his confidence in Canadian good sense. In an 'open letter' to Prime Minister Pierre Trudeau, he wrote in part:

"The Canadian breed. . .has never failed a single decisive test when the alternatives were clear. If you can clarify the present alternatives, the right choice will be made again. Whatever else it may lack, the nation is rich in sanity."

The challenge today, as I see it, is to mange for change, to make our own choices—not let them be made by others. We prize our freedom and independence. These legacies, however, will never be secure in a stagnating or stuttering economy. They will be safeguarded more certainly in a vibrant, outward-looking, self-confident and internationally competitive society.

In summary, if my industry and our country are to grasp opportunity in the short term and more particularly in the 1990s, management of change will be critical in equal measure to the industry and the country.

The appreciation of the audience was expressed by Douglas Derry, a distinguished Past President of The Club.

Leo Melamed

Chairman, Executive Committee,
Chicago Mercantile Exchange

FREE MARKETS, FOREIGN EXCHANGE AND THE INTERNATIONAL MONETARY MARKET

April 10, 1986

The President
Harry T. Seymour, Chairman

Mr. Seymour

Messrs. Consuls General, Reverend Sir, distinguished head table guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today Leo Melamed, chairman of the executive committee and special counsel to the board of directors, Chicago Mercantile Exchange.

The legendary Thomas P. "Tip" O'Neill, Jr., Speaker of the U.S. House of Representatives, in a May, 1982, letter to John F. Sandner, chairman of the board of the Chicago Mercantile Exchange, wrote:

"As the Merc prepares for next month's celebration of the tenth anniversary of the International Monetary Market, let me offer my congratulations early.

"Under the leadership of Leo Melamed, the IMM has become a positive and creative force in the financial world. You have pioneered new markets and helped the futures industry experience a decade of tremendous growth."

While there is no single action that stands out as the founding moment of the IMM, originally established as an independent division of the Chicago Mercantile Exchange, certain events clearly played crucial roles in the new market's evolution from dream to reality. One of the most important was the breakdown of the Bretton Woods Agreement in 1971. For 26 years, the pact had established a narrow band of fluctuation between Western currencies and the U.S. dollar.

The absence of these defined currency relationships, combined with other economic developments, brought to the attention of the world financial community the need for a way to hedge currency fluctuation risk.

The problem was clear, so was the solution.

At the request of the Chicago Mercantile Exchange, Dr. Milton Friedman, subsequently the Nobel laureate in economics, wrote a study in December, 1971, entitled *The Need for Futures Markets in Currencies*, which became the intellectual foundation for the birth of currency futures.

As the result of Professor Friedman's strong support, the determination of the Exchange leaders, its board of governors, and its rank and file members, the International Monetary Market was chartered by the State of Illinois in December, 1971.

When the IMM opened for business in May, 1972, it listed seven foreign currency contracts—British pounds, Canadian dollars, Deutsche marks, Italian lira, Japanese yen, Mexican pesos and Swiss francs. Lira were delisted and Dutch guilders added in 1973, plus French francs in 1974.

For the first time, business and financial managers had the same access to price risk-transfer opportunities that their agribusiness counterparts had been using successfully for more than 100 years.

Trading on the new exchange began cautiously, but, within two years, volume started to build momentum, almost tripling between 1972 and 1973. Success prompted the exchange to add gold futures in December, 1974, U.S. Treasury Bill futures in January, 1976, and, subsequently, domestic certificates of deposit and Eurodollar deposit contracts.

As currency, gold and interest-rate futures transactions continued to grow worldwide, the new exchange saw the need to broaden its base and, in 1976, merged with its Chicago Mercantile exchange parent.

The success of this merger is evidenced by the fact that the Merc established its ninth consecutive annual volume record in 1985, with better than 56 million contracts traded, an increase of 26 per cent compared with its 1984 total.

Included in this impressive total were 468,996 Canadian dollar contracts, representing *only* 2.8% of the almost 17 million currency futures contracts traded in 1985.

How is it, then, that certain journalists have seen fit to write recent newspaper articles? These articles were headed:

> ''How a Handful of Chicago Speculators Drove our Dollar Down'' and ''Rumours Persist Speculators Caused Canadian Dollar Dip''

A counter-argument put forth by the chief economist of one of Canada's leading investment dealers prompted the writer to entitle his article:

> ''Economist Cites Central Bank in Dollar's Fall''

Meanwhile, the senior vice president of one of Canada's major chartered banks was quoted as saying: ''Speculators play a necessary role, but they can affect the value of a currency. . .I'm not saying that they run the show. . .but once the movement of a currency gets under way, the speculators can take it past the point where it would otherwise stop.''

I am certain our guest will attempt to set the record straight today. Recognized as a foremost authority on financial futures, Mr. Melamed has lectured and written extensively in the field and acted in an advisory capacity to the Commodity Futures Trading Commission.

On a business level, he has remained an active futures market trader and is Chairman of Dellsher Investment Company Inc., a clearing member of the Merc and the Chicago Board of Trade.

By profession, he is an attorney, having received his Doctor of Laws degree from the John Marshall Law School, Chicago.

Ladies and gentlemen, it gives me great pleasure to introduce Leo Melamed, Chairman of the Executive Committee and Special Counsel to the Board of Directors, Chicago Mercantile Exchange who will address us on the subject "Free Markets, Foreign Exchange and the International Monetary Market."

Leo Melamed

In recent days, it has become quite the vogue in certain Canadian circles to blame the falling value of the Canadian dollar on the speculators in Chicago, specifically on the traders of the International Monetary Market (IMM) of the Chicago Mercantile Exchange (CME).

Indeed, the Canadian press gave the IMM generous coverage, blaming the fall in value either on "unusually high short selling" on our market or perhaps even on a "small conspiracy of hotshot traders." Moreover, I am ashamed to say, this view found support in some Canadian economic and political quarters.

And why not? Speculators are a most-convenient scapegoat; they have been accused, at one time or another throughout history, of virtually every economic ill with which politicians have had to contend.

Indeed, to behead the messenger of bad tidings is not a Canadian invention. The patent for this idea goes back to the dawn of civilization itself, and, I dare say, will continue to be a viable substitute for the truth for many years to come.

To a degree, therefore, I feel somewhat like a sacrificial lamb, not knowing the precise attitudes, biases or level of compassion of the audience before me and, having come here directly from the very den of iniquity in Chicago, the IMM.

Indeed, before someone suggests I become the perfect sacrifice for the angry god of Canadian dollars, who in recent years has not been smiling on your fair currency, allow me this one attempt to dislodge fiction from fact, expunge myth from reality and perhaps even replace some politically inspired sophistry with economic truism.

The IMM of Chicago, born in May, 1972, is a perfect example of Victor Hugo's reminder that "necessity is the mother of invention." Allow me to briefly sketch the economic backdrop leading up to the events that spawned this market in Chicago.

The Bretton Woods fixed-exchange rate system, instituted directly after World War II, functioned famously well for the first two decades of its life. It worked because the world wanted it to work, and the U.S. was determined it should work.

Unfortunately, the basic and fundamental flaw of fixed exchange rates—its rigidity—eventually began to have a cumulative effect. The system that served so well during conditions of post-war internal reconstruction was highly inadequate, once that process was complete. Because every one of the system's members achieved a different level of economic competence, each at a different rate of growth with widely-divergent expectations and limitations—and because each operated under significantly different fiscal and monetary policies as well as within substantially different forms of government—their respective FX values could not forever be ordained by committee nor adjusted every year or so.

The daily flow of political and economic events, the constant competitive stresses between member nations, the emerging demands of the Third World and the non-ceasing tug of war between the East and West, all combined to continuously change the supply/demand statistics that governed relative FX values. Thus, beginning in the mid-1960s, even while the world was enjoying unprecedented prosperity, it began to witness a constant and consistent erosion of the effectiveness of the exchange rate system upon which it depended. Revaluations and devaluations began to occur at a faster and faster pace, each larger than the one before.

At the same time, the dollar circulation outside the U.S., which had been rising at an alarming rate, had reached a level causing the system's gold accountability to come into question. The widening gulf between dollars in circulation and gold reserves that backed it, made it obvious that the official price for the precious metal was unrealistic. Eventually, foreign demands on Fort Knox for dollar conversion into gold, coupled with a growing U.S. trade deficit, resulted in unbearable pressures on the system's integrity. Indeed, by the time the decade was drawing to a close, confidence in U.S. strength and viability had eroded to a point of near-crisis proportions.

Thus, in 1971, when the United States suspended its guaranteed support price for gold, it effectively ended the fixed-exchange rate era and ushered in a brand new and untested financial age—one that we at the Merc correctly identified—an era that would spell enormous new risks and would therefore create new demands and new opportunities. Because our business was assuming and insuring risk, we were well-placed to respond to the challenges thus created.

Wrote Nobel laureate Dr. Milton Friedman on the eve of the birth of our market:

> ''What the world will need is a futures market in foreign exchange that has breadth, depth and resilience. . .such a market needs speculators who are willing to take open positions as well as hedgers. The larger the volume of speculative activity, the better the market and the easier it will be for persons involved in foreign trade and investment to hedge at lower costs and at market prices that move only gradually and are not significantly affected by even large commercial transactions.''

Yes, the IMM became that marketplace and, as a result, ushered in the financial futures revolution that ultimately changed and reshaped modern concepts of risk management.

The phenomenal growth of this idea is unequivocal evidence of its worldwide acceptance as an indispensable tool of finance.

- 1972 futures industry volume was 18.3 million;
- 1977 volume was 42.8 million, an increase of 133.7 per cent in just five years;
- 1982 volume, a decade after the birth of financial futures,

was 112.6 million, an increase of 514.1 per cent;

- And last year's U.S. volume was 178.7 million, a 876.5 per cent increase since 1972.

And, at the Merc, the institution that led this revolution and shaped the idea to encompass every aspect of finance, from FX to interest rates to stock index futures with option products on each item, at this Chicago marketplace, the success story is even more evident, growing as it did from 3.3 million transactions in 1970 to 56.5 million transactions last year, an increase of 1605 per cent.

For those who wonder how much of that transaction volume is representative of commercial as opposed to speculative activity, allow me to point out that our membership scrolls include the names of Citicorp, Morgan Guaranty, Chase Manhattan, Manufacturers Hanover, Bank of America, Salomon Brothers, Goldman Sachs, Morgan Stanley and scores of other respected commercial entities on whose books much of our business activity is carried. Moreover, the futures and options business conducted by our member firms is often on behalf of commercial entities throughout the business world and representative of virtually every country around the globe including Canada.

The point I am trying to underscore is simply this: futures and options activity is now a central tool of risk management and an integral adjunct of every major financial institution the world over.

Indeed the value of futures and options markets was recently endorsed by none other than the U.S. Federal Reserve Board when, after its two-year study of our markets, it concluded that:

1) Financial futures and options serve a useful economic purpose by providing a more efficient way to manage risk;
2) That, if anything, the liquidity of related cash markets has been improved by the presence of futures and options; and
3) That there appears to be no significant regulatory prob-

lem concerning either manipulation or customer protection.

The Fed said: "It would appear the futures and options make possible greater output per unit of productive resources, just as in the case of any cost-saving technological innovation."

Those are strong words especially from an agency that had no positive bias on behalf of our markets. Rather, if the truth be know, the Fed began its study with a good measure of skepticism.

In view of these endorsements, in view of these volume statistics, in view of the overwhelming acceptance by the commercial community, it is little wonder that our Chicago markets are a most coveted financial arena. Virtually every financial centre the world over, be it Singapore or Sydney, Montreal or Manhattan, Toronto or Tokyo, Great Britain or Geneva, Brussels or Brazil, is desirous of creating a similar facility in its own backyard.

Little wonder also, I suppose, that many are resentful of the Chicago success story, and would greatly relish finding the evil they are certain is there.

And, on the surface, can you blame them for thinking thus? The tumult of our floor, the colour, the noise—how can this represent a respectable business activity? How indeed can traders, who know so little about the economics that dictate currency values, be entrusted with so important a role in the process?

The answer is complex. It begins with the notion Adam Smith long ago pronounced: that the combined effect of individuals pursuing their life's greedy mission acts as an invisible hand that promotes and achieves a public good.

The traders on the Merc know much more than many would give them credit. They are attuned to the important financial information channels and have a highly refined expertise called "feel." Besides, their own money is on the line; a finer discipline is yet to be achieved. But, given all that, they are only performing the role Adam Smith envision-ed for them and do not, I repeat, do not determine the value of currency or anything else.

When they are brokers, their mission is to carry out the orders of their principal: to buy or sell as they are told. When they are market-makers, their mission is buy and sell to make money for themselves. Sometimes, they do well, sometimes not. In either case, they have very little to do with the ultimate value of the product involved.

More to the point, without a large pool of experienced and well capitalised market-makers, there can be no centralised futures exchange that has depth and resilience as Professor Friedman suggested. Local speculators are the lifeblood of a successful market, providing its essential element: liquidity. Simply explained, liquidity is the constant supply of bids and offers flowing to a market, ensuring that the next transaction will be executed at a price not too-distant from the previous one recorded. Liquidity thus enables commercial hedgers to use a given market with confidence, allowing them to transfer the price risks they do not wish to assume. And, price insurance is precisely what futures markets are about. But, to make that system work successfully, the more speculators, the better.

There is yet another general misconception about our markets that needs explaining. Futures are a zero sum game. For every winner, there is an equal and opposite loser. For every seller there must, by definition, be a buyer.

Therefore, if one accuses our local traders of being short—in other words, sellers—the allegation, even if true, does not by itself prove that their selling pushed down the price of the Canadian dollar. Someone on the other side of that transaction was a buyer. It must always be so. In a falling market, the buyers are simply less aggressive than the sellers, and vice-versa in a rising market. But, it always takes two to tango, so to speak.

Actually, according to a CFTC report, on December 31, 1985, 52 per cent of large speculative traders were short and 66 per cent of commercial activity was long. What does this statistic prove? Not much ! But, usually commercial positions have much greater staying power than do speculators.

I make this point because otherwise one gets the impression that our traders can unilaterally force a market in one direction or another. Momentarily, yes, but because there is a counter-balance to each transaction, if the price is out of line with real-world expectations, it snaps back in quick order.

One more thought. Every day before the IMM opens, the cash markets in currency, which trade in Europe long before our North American dawn (and before that, the ones in the Far East), have already established a price for every currency. That price reflects the very latest data and economic prospects as viewed by financial participants and is usually the opening level for American markets.

In other words, the Canadian dollar price, higher or lower, is established even before the IMM is opened. And, thereafter, the transactions executed on the IMM are but one factor in world currency value determination. The total volume of transactions within the inter-bank structure dwarfs that at the IMM each day.

Ultimately, the value of every product not controlled by a monopoly, cartel or sovereignty, is determined by the fundamental factors of supply and demand. That economic fact of life is so, whether the product is gumballs or gold, sorghum or silver, corn or copper, oat or even oil, as the OPEC people recently discovered, much to their chagrin. And, yes, ladies and gentlemen, that fact of life is equally true for the currency value of the Canadian dollar.

Fortunately or unfortunately (I leave you to decide), the fate of the value of the Canadian dollar is in the hands of none other than the Government of Canada, as it always has been. In other words, the Canadian dollar price will ultimately reflect the economic fortunes of your country.

Of course, it must be remembered that there are benefits stemming from a relatively low price of currency if one has an exporting economy. Witness the problems in the United

States as a result of the opposite—the high-priced U.S. dollar. It has literally dealt a crippling blow to many within our manufacturing sector, as well as being a major contributing factor in our depressed farm economy. We simply cannot export competitively with the high-priced U.S. dollar. A cheaply priced currency has a reverse and positive effect.

Indeed, much of Canadian economic growth over the last three years can be attributed to a vast growth in exports. Unfortunately, while exports are still on the increase, some analysts do not expect the rapid growth to be sustained. This, coupled with the fact that some forecasters are now predicting an increase in imports, creates the possibility of a smaller currency-account surplus and possibly even a deficit. But, do not be alarmed. I come from a country that seems to thrive on such deficits.

In this respect, I hope I will not strain my welcome if I make the following observation. It seems to be that Canada's biggest problem—one that materially affects the value of its currency unit—is its federal budget deficit, currently three times as large as the one in the U.S. in terms of percentage of GNP. And, since the American deficit is of monumental proportions, yours is no small matter.

Indeed, my statisticians tell me that 35 per cent of all your tax revenues go for debt service. Clearly, this is not conducive to a healthy economy and does not project a strong internal currency. I know that this is not a problem of current vintage, and I am cognizant that the present administration is struggling with the issue. However, until it is rectified, the negative implications will weigh heavily on the Canadian dollar.

Still, as a trader of currency, I must look at the total picture. When doing so, I see enough on the positive side of Canada's economic ledger to lead me to conclude that, given the present price, there is ample rationale to build a bullish case for the currency. But, that is not the point. No matter what my opinion, the value of the Canadian unit will depend upon the economic factors as they unfold and the collective interpretation of them by financial participants everywhere.

And, to those who suggest that perhaps floating rates have failed, that perhaps we should return to Bretton Woods, to them I say, it's been tried, the idea is obsolete. Indeed, I submit that the fundamental truths governing the value of money are no different than those for all commodities. I, for one, am convinced that it is far, far better to allow a value determination to be made by the forces of the free market than a handful of government officials, irrespective of their benevolent intent.

Indeed, in the history of mankind, there are few, if any, examples where policy-makers have been able to outsmart, for any extended period of time, the collective judgment of buyers and sellers in the marketplace. Those sovereigns who chose to ignore this truth have paid a heavy price. I am confident that Canada will not fall prey to such misguided philosophies.

The appreciation of the audience was expressed by Dennis Madden, a director of The Empire Club.

David M. Culver, O.C.
President and Chief Executive Officer
Alcan Aluminium Limited

CANADA AT THE CROSSROADS

April 17, 1986

The President
Harry T. Seymour, Chairman

Mr. Seymour

Reverend Sir, distinguished head-table guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today David M. Culver, President and Chief Executive Officer, Alcan Aluminium Limited, Montreal.

Born in Winnipeg, David Culver obtained his Bachelor of Science degree at McGill University and his Master of Business Administration degree at the Harvard Graduate School of Business Administration.

He joined Alcan in 1949 and served on the staff of the Centre d'études industrielles in Geneva before transferring to the company's sales office in New York.

Over the ensuing 27 years, he accepted positions of increasing responsibility in Alcan International Limited, Aluminum Company of Canada Limited, and Alcan Aluminium Limited, before accepting the presidency of the parent company, Alcan Aluminium Limited, on October 1, 1977.

When David Culver assumed the position of Chief Executive Officer as well as President of Alcan Aluminium Limited on July 1, 1979, he became only the third executive head in the company's 51 years, Nathanael V. Davis and his father, Edward K. Davis, being his predecessors.

On formulating new policies for restoring the economy to a position of sustained growth combined with lower inflation and lower unemployment, David Culver was quoted in 1982 as saying:

"The best thing governments can do is take a long holiday. Instead of moving the tiller back and forward because the waters are rough, they should keep it steady and ride the storm out. My advice for economic policy would be not to change course because tampering leads to more trouble. It sounds tough, but we have taken the soft option for years."

On another occasion, that same year, he was further quoted as saying:

"We must learn to save an economy from those who know what is 'best' for us, while at the same time effectively managing that amount of government control that is inevitable in a modern industrial democracy."

On boosting Montreal as a major world-class city, David Culver says:

"I feel strongly. . .It's a great city to live in, a city that can have a lively, distinctive future, a gateway city where cultures meet and business can thrive."

David Culver's leadership skills are best exemplified, first, by his appointment as an Officer of the Order of Canada, and second, by his recent nomination by a leading management firm as one of the ten "most admired Chief Executive Officers" in Canada, and, third, by his transference of his skiing ability to two of his four children who made the Canadian National Ski Team at various times during their teens.

Ladies and gentlemen, it gives me great pleasure to introduce David Culver, President and Chief Executive Officer, Alcan Aluminium Limited, who will address us on the subject, "Canada at the Crossroads."

David Culver

As Chief Executive Officer of one of Canada's larger companies, people sometimes say to me: 'Why don't you go to Ottawa and tell those guys to do thus and so?" Such questions tempt me to reply: "There is no point going to Ottawa until one has first gone to the Canadian public!"

After all, we are a raging democracy. Political survival in this country requires those we elect to practise precise followership suitably disguised as bold leadership! Perhaps I exaggerate, but I hope I make the point that these kinds of occasions do present to you and me the chance to influence, however minutely, the Canadian view. If the Canadian view changes, our politicians will be the first to know, and policies reflecting that change will not be far behind.

So what are some of the features of the Canadian view that I suggest need to be changed, however minutely, at this time?

The first has to do with geography, where we are situated on that spaceship that we call Earth. In his last public appearance in June 1983, American engineer Buckminster Fuller was asked what life was going to be like in a space colony. Fuller said roughly the following:

"If you mean what is it like living in outer space, my answer is: I never thought we lived anywhere else! We already live in a space colony, and we are never going to be able to build a better one. All we have to do is use more effectively the features of this incredibly rich one that we have been given!"

Canadian soil makes up a significant part of that spaceship, and that fact alone commits us to interdependence with the rest of the world. Cities, provinces and nations all have had, and continue to have, their role to play in our evolving culture. But the thrust and parry of economic competition is now moving steadily into the larger world arena. The nation-state, still bound by its domestic politics, has to make its policies appropriate to that arena, if it is to survive and grow.

My second point about geography is that there are three relationships of overwhelming importance on our spaceship:

U.S.A.—Russia

U.S.A.—Europe/Middle East

U.S.A.—Japan

Geography, politics, and trade put Canada in the no-man's land of these three relationships. If you are in the no-man's land, you are in some danger of getting caught in the crossfire if trouble breaks out.

Canada is uniquely associated geographically and commercially with the United States, an association which brings with it both benefits and vulnerabilities. But we are also the no-man's land over which any future major conflict—trade or (God forbid) otherwise—will be fought. In its own interest as well as the interests of the rest of the world, Canada must try to exercise its influence wherever it can to help resolve emerging problems before they become damaging.

The third point to be made about our geography is its effect on Canadian attitudes to trade, culture and political independence. Here a comparison with Australia is interesting. Australia shares much of our historical background and cultural origins. However, instead of living alongside the world's largest market, it is somewhat out of the way geographically. This has caused its trade policies to be somewhat protective, but its cultural and political identities to be secure, not to say robust!

We Canadians, on the other hand, have tended on the whole towards freer trade policies, while exhibiting growing uneasiness with respect to protection of our cultural identity, and, I suggest, basking in a more secure confidence about our political independence than is warranted by our economic performance.

Geography, then, has some implications for us, but what about this question of cultural identity? It is another aspect of the Canadian view that, in my humble opinion, needs some light thrown upon it. This is important not only because we must support and grow unique Canadian culture. It is important because it is so easy to see cultural "cry wolf" attitudes being used, consciously or unconsciously, to question and even to torpedo sound economic proposals that would bring Canadians a higher standard of living.

What are the facts? First, we cannot *lose* our culture through the actions of others. No one else wants it as *their* culture; they already have their own. Second, we can ignore our culture or let it languish through disuse and lack of support. Third, it takes money to grow and diversify our culture. Governments do not have any money anymore: the money to support Canadian culture must come from the private sector, but a private sector healthy enough to have the resources to do so. The cultural community should be in the front row of supporters for economic policies that strengthen the Canadian private sector!

Let me turn now to a second aspect of the Canadian view, economic performance, because it is here that we are truly at a crossroads. It is on this question that the future of Canada hangs. If we cannot make ourselves economically strong, our cultural independence will be in danger, and our political stature diminished. If we can reverse the trend of the past fifteen years, not only will our real standard of living rise, but we shall confirm and strengthen our cultural identity, and we shall be able to play the valuable political role in the world scene necessary to keep our no-man's land free of conflict.

Among the many economic problems to be solved and decisions to be taken, there are in my opinion two that transcend the rest in importance. These are the question of the national budget deficit, and the question of our trade relationship with our good neighbours to the south, the United States.

As far as the budget deficit is concerned, I am disturbed not only by the severity of the problem, but also by the comparative lack of understanding by the Canadian public of its far-reaching implications. Without that understanding, there will be little political pressure to take far-reaching action.

Meanwhile, the clock goes on ticking. To borrow an example from a colleague, how many people would be aware that the national debt has increased by $4 million since we started lunch and that it will have increased by about $100 million in the course of today?

The Canadian national debt is indeed growing much faster than our economy, and our deficit in relation to the size of our economy is among the highest in the industrialized world. We hear a lot about the size of the United States budget deficit, and it is large, but it is much lower than Canada's in relative terms. The United States is already taking clear and probably painful steps to reduce its annual deficit to zero by 1991. The Gramm-Rudman Act may be a very blunt instrument, but it represents an expression of political determination which is very impressive to an international observer. By contrast, the Canadian attitude is seen to be confused and temporizing.

The recent federal budget certainly deserves praise for addressing the budget deficit squarely, and for its fiscal approach. It is a step in the right direction along the rough road of deficit reduction. It is, however, only a first step and more will be needed, which will have to contain continuing emphasis on government expenditure reduction, rather than tax increases.

Further, the major economic assumptions in this budget, of interest rates around nine per cent and oil prices around $22.50 a barrel for the next year and then rising, seem questionable. If they are not fulfilled, we shall have once again underestimated the magnitude of the problem, once again have failed to measure up to the challenge.

For we are not talking only about this year's or next year's budget. We are talking about the future of Canada, our children's Canada. We must be clear about what we should spend and not spend, now, to safeguard that future. Canadians will argue and debate (they always have and they always will) but ultimately they have to convince the federal government and, I may add, the provincial governments also, that they are ready to accept cutbacks and compromises in what they seek and expect from the public purse.

What is more, they must do it quickly. The Canadian economy has recently been doing reasonably well, just the time when the measures to deal with a growing deficit should be in place. It will be far more painful to cure the problem when the economy has gone into decline. The necessary steps, and stronger ones than we have so far seen, must be taken urgently to stabilize and then reduce the budget deficit, before the growth of this malignant situation condemns future generations of Canadians to an insupportable financial burden.

The second major economic decision facing Canada is in its trade relationships with the United States. Here again we arrive at the decision point burdened with the legacy of earlier decades.

Canada's international competitiveness has been steadily declining, at least partly due to the soft option taken during the apparently prosperous Seventies. Our traditional strength in world trade has lain with our resource industries, and in the past Canada has indeed done well in that sector.

Unfortunately, that part of world trade is growing more slowly than the manufacturing sector. It is also suffering more from the downward pressure on commodity prices that accompanies today's disinflationary conditions. That is bad enough, but, in the manufacturing sector, there is another problem.

The Canadian market is relatively small, and by itself offers less than the "critical mass" for modern industrial investment, particularly when compared with the internal markets of the U.S., Europe and Japan. Yet it has a manufacturing diversity incompatible with its size, which leads to shorter production runs and higher costs than the competition, which forfeits the economies of scale available to others. In addition, it has barriers to free trade between provinces, which further accentuates the problem.

For a modern industrial democracy to flourish, it must have a vision of what it can become and what its needs are to get there. Canada must clarify and hold on to *its* vision. It must provide the incentives and the conditions that attract modern investment: a work force with the necessary attitudes and skills, the ability to generate and receive appropriate technology, and, above all, guaranteed access to markets of the right size.

Canada has always depended upon exports, and will do so increasingly. We can improve on productivity, introduce the most advanced technology, but, without secure access to export markets, we are wasting our time. Given that we can organize the first two, and some changes will be necessary to make this happen, why should we ignore the opportunity to open access to the great neighbouring market of the United States, a market with the same language, with similar business styles and ethics, a market in which we already operate and in which we are welcome?

To my mind, it is just this securing of access to the most important export market we have, or are likely to have, that is the mainspring and justification of the Government's decision to proceed to enhanced trade negotiations with the United States. I can think of almost nothing that will do more for the ultimate prosperity and security of this country than the successful accomplishment of those negotiations. I am not overlooking the difficulties (commercial and political, of substance and of timing) which lie in the way. We must not expect immediate results, particularly in view of the political agenda of a United States congressional election year, and a slow low-profile approach may be wise, as well as probable.

Nor am I overlooking the fact that there will be problems of adjustment, changes to the sectoral levels of activity and employment in this country. But I believe that the severity of these problems can be overstated. There are many economists who have studied the probable effects of a freer trade agreement with the United States who are predicting an overall increase in employment and in GNP as a result.

What we have to accept and deal with are the problems of transition. We shall need time. Changes must be introduced on a time scale compatible with the investment, training and redeployment requirements of affected industries. We shall need to provide the kinds of social support necessary to solve the human problems the changes will bring.

But what will be the benefits? We shall indeed have gained the main objective: guaranteed and free access to the world's, and our, largest market. But we shall also have gained, and I hope grasped, the opportunity to make ourselves truly competitive on a world scale. We shall still face the problems of competing with Third World countries, but we shall be better placed to do so. We shall have become part of a bigger domestic market, and we shall have sharpened our own competitive edge.

Simultaneously with the opening of negotiations with the United States, if the United States government gives the go-ahead, as I believe it will, we shall also probably be starting towards the next round of multinational trade negotiations under the GATT. Successful progress in Canada-United States trade negotiations will be a tremendous catalyst for multinational trade negotiations. It will also put Canada in a stronger and more competitive position to meet and take advantage of the changes that the next round of GATT changes to tariffs and non-tariff barriers will bring.

Let me add two other comments. We have an important and growing trade relationship with Japan. Japan is Canada's second-largest national trading partner after the United States, and is the United States' second-largest trading partner after Canada. It is natural that Japan should feel some concern about the effect on its trading relationships with both countries, of an enhanced trade agreement between them. I am convinced that it has nothing to fear on this score.

On the contrary, a Canada strengthened by such an agreement has more, not less, to offer Japan, both on issues of trade and investment. It also has the opportunity of offering a friendly and concerned hand in the resolving of problems in the very important United States-Japanese trade relationship.

Secondly, a comment about political independence. We need a wider range of responses than the knee-jerk reactions apparent in recent years. I suggest it is time to realize that the political independence of this country is neither an entitlement nor a God-given right. It has to be earned on a continuing basis, and, once again, the primary requirement is economic strength. A Canadian economy uncompetitive in costs and rife with underemployment and unemployment is a far greater risk to our political independence than is a comprehensive trade agreement with the United States. Huge and growing deficits and a weak currency, both at a time of record export surpluses, are danger signals of an economic sickness that, in the long run, truly threatens our political independence.

Canada is a small country in terms of population, but it is a large and critically placed part of spaceship Earth. This calls for new thinking and new responses from Canadians. The old reactions of the 1950s and 1960s are no longer useful. The National Energy Program and FIRA as it operated in the early 1980s are both good examples of what happens when we apply old responses to new situations.

Our geography and our values commit us to world citizenship, and our trading needs make us part of a one-world economy. To make ourselves ready for that future, far more ready than we are today, the first step is a comprehensive trade deal with the United States. No question about it.

This should be accompanied, and preferably preceded, by a phased program to stabilize and then progressively reduce the budget deficit. A successful initiative in these two areas will give us the trade access, the competitive edge, and the economic health, that are vital to our future.

The next step will be the evidence that we can indeed hack it. From the confidence that will engender will come success as a nation on the world stage. In world terms, Canada probably counted for more in the early to mid-Fifties than at any other time since. It may not be a coincidence that this was also a time of trading success and of financial and fiscal responsibility as a nation.

I am convinced that we must, we can and we shall succeed in this venture. It will call for diplomatic leadership and political courage. It will call for recognition and acceptance at all levels and in all branches of our society of the changes that are necessary and that will come. If we fail to rise to this challenge, we are in danger of condemning Canada to a future that holds little but dwindling isolation. If we grasp it for the opportunity that it is, we are laying the foundation of a strong world-class nation that has really come into its own.

Let me end with what I hope will be accepted for what it is: a sincere non-partisan appeal. We are fortunate in Canada to have a very high calibre of men and women represented in our elected political bodies. They want to do what we want them to do.

Let's be brave and adventuresome. Let's show that we Canadians do indeed want the freer trade, the restored economic health, and the pride and independence I have talked about. Let's make it clear that we see the challenge and the opportunity and we welcome both. If *we* do that, *they* will do the rest.

The appreciation of the audience was expressed by John A. MacNaughton, a distinguished Past President of The Club.

The Empire Club of Canada and The Empire Club Foundation

THE FIFTH ANNUAL SPRING BALL

April 18, 1986
The Four Seasons, Yorkville

In the presence of the Honourable Lincoln M. Alexander, Lieutenant Governor of Ontario, and Mrs. Alexander.

Programme

Chairman
Harry T. Seymour
President, The Empire Club of Canada

Vice Regal Salute

Greetings
The Honourable Lincoln M. Alexander,
P.C., Q.C., K.St.J., B.A.

Grace
The Hon. Mr. Justice Joseph H. Potts, C.D.

Loyal Toast
The Rt. Hon. Roland Michener,
P.C., C.C., C.M.M., C.D., Q.C.

Dinner

Toast
The Empire Club of Canada
The Empire Club Foundation
MGen. Bruce J. Legge, C.M.M., K.St.J., E.D., C.D., Q.C.

Response

Col. Robert H. Hilborn, M.V.O., M.B.E., C.D.

Dancing

Doug Zimmerman and his Orchestra

Appreciation

Dr. António Tânger Corrêa, Consul General of Portugal
Crush Canada Inc.
Flowers by Mimi & Richview Nurseries
Mövenpick Restaurants of Switzerland
Portuguese Trade Commission
Price Waterhouse
TAP Air Portugal
Toronto Dominion Bank

Spring Ball Committee

This year, over three hundred and fifty people attended the Ball, which was ably co-chaired by Ms. Nona Macdonald, First Vice-President, and Jean-Pierre Scheidegger, a Director of The Club. It is fitting at this time to recognize the members of the Committee for their valued contribution to the success of The Ball.

Sarah Band
Clarence Crummey
Wendy Cecil-Stuart
Diana Chant
Paul Clark
Jerry Collins
Cecelia Davies
Douglas Derry
Donna Digby
Blake Goldring
Ronald Goodall
Robert Gulliford
Chas. (Bud) Hoffman
Montague Larkin
Dennis Madden
Robert McGavin
Margaret Scrivener
Lindsay Shaddy

PRESIDENT'S REPORT

April 24, 1986

The President
Harry T. Seymour, Chairman

Mr. Seymour

Honoured guests, distinguished Past Presidents, members and friends of The Empire Club of Canada: Notice has been provided that our annual meeting is to be held on this date, and I have asked the Club Secretary, Willis Blair, to act as secretary for the meeting.

In accordance with Article VI, Sub-section 2, of The Empire Club constitution, I am pleased to report on the year's activities and present an interim report on our financial affairs. The audited financial statements will be included in the 1985-86 Yearbook.

The annual report has been printed and copies have been placed on each table for your review when time permits. However, since we have a valued following on radio and television, it is my intention to present a brief synopsis of this report for the benefit of that audience. (The full report, rather than the synopsis, is provided below.)

I am pleased to submit the annual report of the President on the 1985-86 operations of The Empire Club of Canada.

The 1985-86 year has proven to be a very exciting and sometimes challenging time for all Canadians. In the longstanding tradition of The Empire Club, we have endeavoured to attract speakers that could address these key domestic and international issues of major concern to our members.

Before proceeding with the detailed review of these activities, I would like to highlight our special meeting on November 12, when our Honourary President, Her Excellency the Right Honourable Jeanne Sauvé, addressed a joint luncheon meeting of The Empire Club of Canada and The Loyal Societies. On this most privileged occasion, Her Excellency addressed us on the topic, "Our Responsibility to Youth," a most timely subject indeed, given our current economic environment.

Furthermore, I would like to highlight the joint meeting of The Empire Club and The Loyal Societies to honour our former Honorary Vice-President, The Honourable John Black Aird, at the conclusion of his term of office as Lieutenant Governor of Ontario.

In the aftermath of the economic recession of the early 1980's and in the midst of the technological revolution, we attempted to focus our attention on three major themes: economics/finance, free trade, and the advancement of knowledge.

First, on the subject of *economics/finance*, we featured a special luncheon meeting in May for The Hon. Barbara McDougall, Minister of State for Finance, to discuss the 1985 budget. Then Paul Volcker, Chairman of the U.S. Federal Reserve System, expanded our knowledge and understanding of the international marketplace when he addressed a joint dinner meeting of The Empire Club and The Canadian Club in late October. To provide an unbiased view from Europe, we were fortunate to have Rainer Gut, Chairman, Credit Suisse (Zurich), address us in early December.

After an interlude of several weeks, we came back to this subject when Stanley Beck, Chairman of the Ontario Securities Commission, examined the possibility of new ownership rules in financial institutions in Ontario. In early March, we joined with The Canadian Club in a special luncheon meeting for The Hon. Michael Wilson, Minister of Finance, who addressed us on the 1986 budget. Given the increasing tendency to mergers and acquisitions in our global village, it was appropriate to have Norman Burrough, Chairman, James Burrough plc, examine those pressures in mid-March from the standpoint of a traditional English family company dealing in the international marketplace. Finally, in April, in response to the relentless pressure on the Canadian dollar earlier this year, we welcomed Leo Melamed, Chairman, Executive Committee, Chicago Mercantile Exchange, who endeavoured to dispel the magnitude of the impact and the myths associated with trading in currency futures.

For our second theme, that of *free trade*, we featured The Hon. David Peterson, Premier of Ontario, at a special luncheon meeting with The Canadian Club in September. A view from the business Community was tabled shortly thereafter by Pierre Lortie, Chairman and Chief Executive Officer, Provigo Inc. An international perspective was added when John Redfern, Chairman, Cement Lafarge, addressed our membership in mid-November.

When the free trade topic gained added momentum early in 1986, we were pleased to welcome to our podium The Hon. James Kelleher, Minister for International Trade, who assured us that every aspect of the subject was being closely scrutinized and that the government would not prejudice our economic, political and cultural freedom—at any cost. Finally the free trade views of the well-known and respected industrialist, David Culver, tabled last week, present a sound argument for further discussions.

Our third theme, *the advancement of knowledge*, covered several subjects and featured, in October, Dr. Allan Lansing, Chairman and Director of the Humana Heart Institute International, who spoke to us on the necessity for, and the advancements to be made from, artificial heart transplants.

Canada's first astronaut, Dr. Marc Garneau, put forth a strong argument in early January as to why our 24-year old space programme must be allowed to develop further, prior to taking us around the world on his 41-G mission.

From the academic community, Dr. George Connell, President of the University of Toronto, and Dr. Douglas

Wright, President of the University of Waterloo, examined the many reasons for, and the advantages to be gained from, stronger working relationships between the business and the academic communities in pursuit of the advancement of knowledge.

In addition to exploring these major themes through the 1985-86 year, a substantial portion of our programme was devoted to introducing our members to topics of current interest. Highlights from this portion of the programme included (1) a review of the French connection, by Ontario's Agent-General in Paris, Adrienne Clarkson; (2) a vivid description by Pierre Berton, author and broadcaster, of the driving of The Last Spike, on the 100th anniversary of the CPR, November 7; (3) a trip through the site of the 1986 World Exposition in Vancouver by Patrick Reid, Ambassador and Commissioner General; and (4) A review by Allan Slaight of the reasons why the Shaw Festival, celebrating its 25th Anniversary in 1986, is Canada's most successful theatre company.

Membership in The Empire Club continues at a strong level. We have seven honourary life members. Our life members have increased each year to our current level of 215.

During the year, our spousal memberships showed another strong increase—either new memberships or regular memberships converted to this category—and now total 570. In the category of regular memberships, we have 2,003 members, while student memberships remain virtually unchanged at 43. Thus, at present, The Club has 2,838 active members.

During the year, the retirement from office of our Honourary Vice-President, the Lieutenant Governor of Ontario, the Honourable John B. Aird, O.C., Q.C., was announced. His successor, The Honourable Lincoln M. Alexander, P.C., Q.C., was invited coincident with his investiture to become the Club's new Honourary Vice-President. I am pleased to record that His Honour graciously accepted.

Attendance at our thirty-five meetings this year has totalled 14,008, representing an average attendance of 400.

For the last two years, membership fees have remained unchanged—$30 for regular membership, $40 for spousal membership, and varying amounts depending on age for life membership. Luncheon prices for members are $13, but an extra $5 is charged for guests and other non-members.

In order to maintain operations on a break-even basis, it is important to control costs as tightly as possible and to plan certain events that are priced so as to generate additional revenue. I am pleased to report that, based on preliminary numbers as presented by our Treasurer, in the current year our revenue has exceeded expenses by approximately $21,000, bringing The Club's surplus to some $77,000. This is largely due to the financial success of the dinner meeting addressed by Paul Volcker and the luncheon meetings addressed by The Honourable David Peterson and The Honourable Michael Wilson.

During the year, the Club contributed $12,000 to The Empire Club Foundation for publication of the Yearbook, plus the proceeds from The Empire Club Spring Ball, the most successful in the history of The Club, which will be an estimated $13,000.

The success of our Club is a result of the contribution of our forty directors, past presidents, and other volunteers, who willingly take on a variety of tasks, which, taken individually, are often not widely noticed, but which, taken together, are the essence of what makes our meetings progress effortlessly and tastefully. This is so much of what makes The Empire Club of Canada unique. Thank you.

The Empire Club Foundation, under the able leadership of Colonel Robert H. Hilborn, fulfills the valuable role of ensuring the annual publication of The Empire Club Yearbook, an important commentary on the social and economic history of Canada. In addition to our members, libraries across Canada receive these addresses free of charge, and we are most appreciative of the continuous efforts of the Foundation directors and officers in making certain that it is adequately funded.

On behalf of the members of The Empire Club of Canada, I would like to extend a very special thank-you to Anne Lato, The Club's Administrator. Without her seemingly limitless skills and pleasant disposition, the task of leading The Club would not be nearly as enjoyable. She is ably assisted two days a week by Joan McDonald whose competence and reliability further enhance our activities.

The preparation for and the smooth operations of the regular Thursday meetings is due in large part to the efforts of four committees for whose support I am most grateful. In particular, I should like to recognize the Chairman of the Weekly Notice Committee, Carlyle Dunbar; the Chairman of the Head Table Committee, Ms. Marie Corbett; the Chairman of the Reception Committee, Dr. Clarence Crummy; and the Chairman of the Head Table Reception Committee, Chas. (Bud) Hoffman. Their weekly contribution has been invaluable.

At the same time, I should like to recognize the Immediate Past President of The Empire Club Foundation, MGen. Bruce Legge, for his unfailing support throughout the year. Ms. Catherine Charlton, Immediate Past President of The Empire Club, also has been most helpful.

On a corporate note, I would like to thank my partners at Dominion Securities Pitfield Limited for their constant support throughout the year, allowing me to fulfill my duties at The Club as well as at the office.

To the management and staff of the Royal York Hotel, a hearty thank-you for your unwavering co-operation. In particular, I would like to single out Hans Grubmyr, Tony Hauth, Harry Bittner and Adrianno Ferreira.

Finally, on a personal note, I should like to recognize the enthusiastic support of my wife Lillian in making the year so enjoyable. It is fitting that we are celebrating our 22nd wedding anniversary today as the 83rd year of The Club draws to a close.

In closing, may I say to those responsible for my election, what a privilege it has been to serve The Empire Club of

Canada. The pleasure and satisfaction I have experienced in leading The Club during the 1985-86 year has been extremely gratifying.

I leave the President's Office knowing that the Past Presidents, the Board of Directors, and you the members, will extend the same kind of support to my successor, Ms. Nona Macdonald, who brings a wealth of experience to the position.

Respectfully submitted,

Harry T. Seymour
President

Mr. Seymour moved acceptance of the annual report, which was seconded by Douglas Derry.

The President then called upon the Immediate Past President and Chairman of the Nominating Committee, Ms. Catherine Charlton, for the report of that committee.

Catherine Charlton

Mr. President, distinguished guests, members and friends of The Empire Club of Canada: It is my pleasure, as Chairman of the Nominating Committee, to report on the work of the Nominating Committee which was constituted, in accordance with Article III of The Club's Constitution, of these members: From the Board of Directors: Catherine R. Charlton, M.A., Paul D.J. Clark, Marie Corbett, Q.C., Douglas Derry, F.C.A., Nona Macdonald. From the membership at large: Col. Robt. Hilborn, L.V.O., M.B.E., C.D., MGen. B.J. Legge, C.M.M., K.St.J., E.D., C.D., Q.C., MGen. Reginald Lewis, C.D., John MacNaughton. Our President, Harry Seymour, served on the committee in an ex-officio capacity.

The Nominating Committee is pleased and privileged to report that the Honorary officers of The Club for the 1986-87 season will be:

Honorary President
Her Excellency the Rt. Hon. Jeanne Sauvé, P.C., C.C., C.M.M., C.D., Governor General of Canada

Honorary Chairman
His Excellency the Rt. Hon. D. Roland Michener, P.C., C.C., C.M.M., C.D., Q.C.

Honorary Vice President
The Hon. Lincoln M. Alexander, P.C., K.St.J., B.A., Lieutenant Governor of Ontario

Honorary Chaplain
The Very Rev. Ernest M. Howse, S.T.M., Ph.D., D.D., Litt.D.

Honorary Secretary
Dennis Flynn, Chairman, Metropolitan Toronto

Honorary Treasurer
Marvin Gelber

Honorary Solicitor
The Hon. Wm. G. Davis, P.C., Q.C.

Honorary Assistant Secretary
W. Malcolm McIntyre

Archivist
Leland H. Ausman

A new position, that of Honorary Associate Chaplain, has been created, and I am pleased to say that The Rev. Harold F. Roberts has agreed to fill this post.

The Nominating Committee is also pleased to report that J.A.Wm. Whiteacre, M.M., C.D., Q.C., will assume the position of Secretary, and that Mrs. Diana Chant has consented to continue to be our Treasurer.

According to our Constitution, "the Board of Directors shall consist of forty members, including at least four Past Presidents of The Club, one of whom shall be the Immediate Past President and three others shall be the three Past Presidents immediately preceding the Immediate Past President."

Because of the departure for Australia of our 1982-83 President, Henry J. Stalder, it is the Committee's decision to continue with the order established two years ago, so that the Committee nominates: the immediate Past President, Harry Seymour, and also Ms. Catherine Charlton, M.A., Douglas L. Derry, F.C.A., and BGen. S.F. Andrunyk, O.M.M., C.D.

The Nominating Committee recommends unanimously that the following members of the Board of Directors continue to serve in the coming year:

Directors

Setrak Adourian
Mrs. Jean Casselman-Wadds
Paul D.J. Clark
Ms. Marie Corbett, Q.C.
Dr. Clarence B. Crummey, M.D., F.C.F.P.(C)
Ross De Geer
A. Carlyle Dunbar
Blake Goldring
Charles C. Hoffman
The Hon. Daniel A. Lang, Q.C.
Montague Larkin
John P. MacBeth, Q.C.
The Hon. Roy MacLaren, P.C.
H. Dennis Madden
Michael Meighen, Q.C.
Dr. James A. Parish
Leslie C. Parkinson
Bruce Rankin
Jean-Pierre Scheidegger

Angus Scott
Margaret Scrivener
Lindsay K. Shaddy
Gordon G. Steele, M.Com.
LCol. Garry S. Thomson, C.D.
Robert Watt

Your Nominating Committee is pleased to nominate unanimously the following new members for the Board of Directors:

John Campion
Barrister & Solicitor, Partner with Fasken and Calvin

Ms. Wendy Cecil-Stuart
VP Business Development, Brascan Limited

The Hon. Barney Danson, P.C.
The recently returned Canadian Consul General in Boston, who we are delighted is rejoining the Board.

E. John Freyseng, Q.C.
Partner, Blaney, McMurtry, Stapells, Aarons & Watson; Past President of the York County Law Association

Dr. Peter G. Kirkham, Ph.D.
Senior VP Human Resources, Bank of Montreal

James G. Laidlaw
Stockbroker with McDermid, St. Lawrence, and a Lieutenant in the 78th Fraser Highlanders

Henry E. Stewart
Chairman, Ontario Municipal Board.

In addition to the above-named nominees, your Committee also recommends the election to the Board of the following three persons who will be proposed to the Board of Directors for appointment to the posts of Vice-President:

1st Vice President
Ronald Goodall, F.C.A.

2nd Vice President
Willis L. Blair

3rd Vice President
John D. Herrick

Finally, your Committee is pleased to nominate for the Presidency of The Empire Club of Canada for its 1986-87 season Ms. Nona Macdonald Heaslip.

Ms. Macdonald was first appointed a director of The Empire Club in April 1977, and has been active since then in chairing the public relations committee of the Board. In this regard, she has generously and unstintingly responded to requests for assistance from The Club Presidents, including myself, and has earned our gratitude. Both last year and this year, she has co-chaired the Empire Ball, the proceeds of which contribute to the publication of The Club's Yearbook.

Nona Macdonald brings communications and leadership skills to her post. She is the immediate past president of the Couchiching Institute on Public Affairs, and since 1973 has practised public relations with her alma mater, the University of Toronto, and Ontario Place Corporation. She is active with the Canadian Public Relations Society, the Public Affairs Association, and the Canadian Institute on International Relations.

Mr. President it is my pleasure to move that this report of the 1985-86 Nominating Committee be adopted. Seconded by MGen. Bruce J. Legge. There being no further nominations, Ms. Marie Corbett moved that nominations be closed. Seconded by Dr. Clarence Crummey.

The president then asked the Secretary, Willis Blair, to cast a single ballot in favour of those persons named in the report of the Nominating Committee. A ballot having been cast, the President declared the members properly elected as Directors of The Empire Club of Canada for 1986-87, The Club's 84th year.

He said he was extremely pleased to extend his sincerest congratulations to the President-elect, Ms. Nona Macdonald, and passed to her the chain of office.

Nona Macdonald

Mr. President, Your Excellencies, distinguished head table guests, members and friends of The Empire Club: Thank you, Catherine Charlton, and your nominating committee for selecting me as your President-Elect for 1986-87. It is an honour to undertake this responsibility and to strive to uphold the high standards of this Club.

However, I have the good fortune to look to our distinguished Past Presidents, directors and The Empire Club Foundation members who have nurtured an organization that reflects the finest of traditions and fellowship.

As the second woman to be in this position of honour, I acknowledge Catherine Charlton's presidency for its exemplary trail-blazing!

And to you, Mr. President, I must register my admiration for your energy, imagination, and fortitude. Your competence in combining your own increasingly involved business career with the work required to manage a star-studded year of speakers and directors is comparable to the phenomenon of Halley's Comet itself!

I won't forget your major production when 2,300 persons gathered to hear Paul Volcker in two rooms, on two levels, and you calmly announced there would be two giant screens, two media set-ups, two head tables *and* questions from the floor. Mr. President, in TV's vernacular, please *stand by* when and if we have another such extravaganza.

But, that aside, you've achieved the goals you set through the selection of speakers who challenged the frontiers of science, business, and politics, and you attracted to our platform some of Canada's most articulate and intelligent women.

One outstanding woman who has stayed out of the limelight, but whose presence has been so important, is your wife Lillian. Her interest and dedication brought a flow of new members and guests to this Club. Indeed, she has set an example.

I invite our members to share the advantages, as she did, of this public forum, with their friends and colleagues. Next year will bring another roster of speakers, among them: Quebec Premier Robert Bourassa; humorist Allan Fotheringham; artist Robert Bateman; C.D. Howe Institute's Wendy Dobson; and many other men and women leaders from Canada and abroad.

To the directors—40 strong—I turn for inspiration and support. And finally to family friend Mr. Justice Joseph Henry Potts, wherever he may be, I say: You are my first Empire Club connection and it was you as President who first invited me to sit at The Club Head Table in 1973 when I had just returned from New York and hadn't toasted The Queen in nine years—I regret to say, Your Excellencies. I was duly impressed at that time, but would not have foreseen this amount of voluntary commitment—from 1973 to 1986.

So I pledge, to the best of my ability as President, the continuation of the worthy values set forth by my predecessors.

His Excellency, Sir Derek Day, K.C.M.G.

British High Commissioner to Canada

BRITAIN: A FORCE IN TODAY'S WORLD

April 24, 1986

The President
Harry T. Seymour, Chairman

Mr. Seymour

Your Excellencies, Mr. Consul General, Reverend Sir, distinguished head table guests, members and friends of The Empire Club of Canada: It is my pleasure to welcome as our guest speaker today His Excellency, Sir Derek Day, K.C.M.G., British High Commissioner to Canada.

Born in London, Sir Derek Day was educated at Hurstpierpoint College in Sussex and St. Catherine's College, Cambridge, graduating in history. Before attending university, he had served as a lieutenant in the Royal Artillery from 1946 to 1948.

Upon graduation in 1951, Sir Derek Day joined the Foreign Service as the Desk Officer for the Council of Europe. As he accepted positions of increasing responsibility over the next 18 years, he found he was assigned to posts in Tel Aviv, Rome, Washington, Nicosia, Addis Ababa, Salisbury (now Harare) and, of course, London—on occasion for debriefing.

Early in 1980, he was appointed Deputy Under Secretary of State with overall responsibility for relations with Africa, North and South America and the Caribbean.

His Excellency was directly concerned with developments leading to the patriation of the Canadian Constitution in

1982. From 1982 to 1984, he served in the Foreign and Commonwealth Office as Deputy Under Secretary of State, responsible for the organisation and administration of the diplomatic service. He was made a Companion of the Order of St. Michael and St. George in 1973 and was appointed a Knight Commander of the Order of St. Michael and St. George in the June 1984 Queen's Birthday Honours List.

Sir Derek and his wife Sheila have three sons and a daughter.

His Excellency has always been a keen sportsman. He played field hockey for England, and was a member of the Bronze Medal British team at the Olympic Games in Helsinki in 1952.

Ladies and gentlemen, it gives me great pleasure to introduce His Excellency, Sir Derek Day, K.C.M.G., British High Commissioner to Canada, who will address us on the subject, "Britain: A Force in Today's World."

Sir Derek Day

I have chosen as the theme of my remarks today "Britain: A Force in Today's World." To some, this may seem a somewhat strange title. You may perhaps argue that Britain is *not* a true force in today's world. Or, more generously, that Britain is nothing like the force it was. That may well be true, if one thinks of force in the conventional, and limited, sense of a major military power, or a dominating economic presence. It is also true, if you compare our situation today to that of the 1920s and 1930s. Then, as I and some of you remember, much of our schoolboy atlas was coloured red, indicating a political and economic empire upon which the sun never set. Some of you may also have in mind the pointed remark of (American statesman) Dean Acheson, made in the mid-60s, that "Britain had lost an empire but had not yet found a role."

Whether or not that remark was justified then (and I believe that it contained more than an element of truth), much has happened in the world, and in Britain, in these past 20 years since Dean Acheson spoke. We have not regained an empire, but we have, as I hope to demonstrate, identified a role for ourselves in the world, commensurate with our economic potential and drawing upon the still-considerable resources of our people.

That role does not depend upon force in the conventional sense, military and economic, to which I referred earlier. It derives from a readiness to exercise an influence in world affairs, from our deep reservoir of human resources, and from a wealth of experience that has been able to adapt to the changing circumstances in which we and the other nations find ourselves.

Let me therefore direct your attention to certain aspects of our national and international life where Britain still exerts an influence, a force, and, I hope you will agree, a force for good.

I referred earlier to military power. Britain, of course, makes no pretension of being a military super-power. That privilege, or burden, rests upon the Soviet Union and the United States. But Britain remains a power to be reckoned with, and one that any potential aggressor will ignore at its peril.

Our defence, not only of our physical territory but also of our political, social and economic system, rests, as does yours, upon the North Atlantic Treaty Organization. We take our obligations and responsibilities to that alliance seriously. Our armed forces are amongst the most professional, best-equipped and best-trained of all NATO forces. We spend more on defence, in absolute terms, and per capita, than any other ally except the United States. We spend (by NATO definitions) a higher proportion (46 per cent) of our defence budget on equipment than *any* other ally. Over 90 per cent of our forces are assigned to NATO. About half of the combat strength of the British Army, 55,000 men, is permanently stationed in the Federal Republic of Germany, together with ten thousand airmen. The Royal Navy contributes the lion's share of NATO's readily available maritime forces in the East Atlantic and the Channel. The RAF contributes eleven squadrons to NATO's air forces in the Central Region.

Our capabilities, although concentrated in NATO, are not confined to that area. As the Falklands Islands episode (defeat of Argentinian invaders) demonstrated so clearly, our forces are also capable, at short notice, of operating with total success at great distances from home in the most arduous and adverse circumstances. The Falklands operation (in the South Atlantic) was equivalent to mounting operations in Sydney, Australia, from Vancouver, with a small staging post on Christmas Island in mid-Pacific. The powers of organisation and improvisation that made such an operation successful have not been lost.

The Falklands provided a vivid demonstration of the value and effectiveness of the Harrier aircraft, the West's only operational vertical take-off and landing aircraft, developed and manufactured in the United Kingdom, and now adopted by others, notably the United States, as part of their own military complement.

Less dramatically, we make our military contribution to peace in many parts of the world. Like Canada, Britain contributes to United Nations peace-keeping operations in Cyprus (where we have the largest single contingent) and the Middle East. Our forces, at the request of the government of Belize, help protect that country from external aggression, thus bringing stability to one corner of Central America. We have forces in Hong Kong and Brunei. Some seven hundred British military personnel provide military training assistance in about thirty countries. British military training teams have been working in Zimbabwe and Uganda, at the invitation of the governments of those countries, to assist in the formation and training of their national forces. So, although our military armoury may not match that of the super-powers, our presence in Central Europe and in many other parts of the world, makes a significant contribution to peace and stability.

The ability to exert a constructive influence in the world today does not, however, depend solely, or even primarily, upon military strength or upon membership in a defensive alliance. Influence is exerted through other means and institutions. Britain continues to play a leading role in such institutions, and notably the United Nations, the Commonwealth and the European Economic Community.

Britain, like Canada, is a founder-member of the United Nations. Since the U.N.'s inception more than forty years ago, Britain has been a permanent member of the Security Council. This is more of a responsibility than a privilege. It obliges us to follow events and developments around the world with care and attention so that we are able, when issues are brought before the Council, to contribute knowledgeably and constructively to the debate. We are able (perhaps better able for not being a super-power) to seek practical and honourable solutions and help to defuse potentially threatening situations.

Our membership in the Commonwealth and in the European Community enables us to sound out and influence the views of our friends and partners in these institutions. As with Canada, whose reputation for constructive involvement stands so high, we are often able to steer the discussion and debate in the United Nations into more fruitful channels.

We can, and do, play a similar role in the Commonwealth and Europe, two groupings that comprise a cross-section of our world society and many of the leading industrial nations.

The Commonwealth has been written off many times as an irrelevant talking-shop. And yet, time and again it emerges from the shadows to make its own unique contribution. Many institutions, if they did not already exist, would have to be invented. No one, I suggest, would be able to invent the Commonwealth if it did *not* already exist. Yet in large and small issues, it is there as a voice for sanity and constructive understanding.

Today the Commonwealth Group of Eminent Persons provides probably the best chance for many years for peaceful and orderly progress in South Africa. Britain, with Canada, is a member of that group. Five years ago, the Commonwealth heads of government, meeting in Lusaka, paved the way for the British government's successful resolution of the seemingly insoluble problem of Rhodesia, now Zimbabwe.

These are the highlights. But all the time the Commonwealth, with Britain and Canada as the major contributors, is quietly working away on youth exchanges, economic development schemes, technical assistance, and a whole range of other activities. Through the agency of the Commonwealth, we can both bring real and effective influence to bear.

The same opportunities and challenges face us as members of the European Community. We have sought to ensure, with some success, that the Community remains an outward-looking institution, dedicated to an open-trading system and not one that shelters behind a protectionist wall for its industries.

We fully support the next round of multilateral trade negotiations. We also support, politically and financially, the provision of development assistance to the many African, Pacific and Caribbean countries that form part of the LOMÉ Agreement. Through the Lomé Convention, the European Community provides freer access to exports from developing countries than is offered by any other industrialised nation. The growing strength of political co-operation in the Community provides us with yet a further opportunity to make a distinctive European voice heard in international affairs.

It is not only through these multilateral institutions that we are able to make a contribution. For example, our own bilateral aid programme benefits some 130 nations. This year, over £1.2 billion (about C $2.5 million) will be available for spending, with further increases planned for the next two years. Three quarters of that aid goes to our traditional partners and friends in the Commonwealth. And when emergencies strike, we have the will and the ability to respond.

A year ago, at the height of the Ethiopian famine, Hercules aircraft of the Royal Air Force were despatched to Addis Ababa where, for many months, they operated in difficult and dangerous conditions, delivering grain, much of it Canadian, at treetop level to beleaguered and starving villagers.

But no country can hope to exert constructive influence outside its own shores unless it can operate from a sound economic basis. Here the outlook for Britain is bright. We are now entering our sixth successive year of growth at about three per cent a year. Even more important, 1985 was the third successive year in which we secured the elusive combination of steady growth and low inflation. Let me reinforce this good news by mentioning just some of the trends referred to by the Chancellor of the Exchequer, Nigel Lawson, in his recent budget statement.

In 1985 as a whole, output in Britain grew by a further three point five per cent, the highest rate of growth in the European Community, and higher than the United States. Our balance of payments was in surplus for the sixth year in succession, by some £3 billion (approximately C $6 billion). There has been a remarkable turnround in productivity. In the six years to 1979, Britain's rate of growth of manufacturing productivity at less than one per cent, was the lowest of the five major industrial nations. In the six years since 1979, our annual rate of growth of manufacturing productivity, at three and a half per cent, has been second only to Japan.

Thus, the economic outlook is good, and 1986 should be another year of steady growth and low inflation.

And I hope it will not be regarded as presumptous if I recall, to an audience in Toronto, that the City of London still has the greatest concentration of banks in the world (responsible for about a quarter of total international bank lending), the world's biggest insurance market (with about one fifth of the international market), and a stock exchange with a larger list of securities than any other exchange.

And London is still the principal international centre for transactions in a large number of commodities. The "big bang" due in October this year will keep London at the forefront in innovative financial developments.

Against this economic background, our industries, our businessmen, and our scientists, are taking advantage of these favourable trends. They are looking ahead to the world of the twenty-first century. British Aerospace is developing plans for a revolutionary horizontal take-off and landing vehicle (HOTOL, as it is known), which will carry passengers from London to Australia in forty-five minutes. This aircraft would take off and land like a normal jetliner on a normal commercial runway. The secret of its propulsion is that it sucks in oxygen and blasts out hot air, something that diplomats, or even politicians, are sometimes accused of.

That is something for the future, but no more improbable than Concorde (supersonic aircraft) would have seemed to us not many years ago. There are many other current developments that demonstrate the inventiveness and creativity of the United Kingdom. The world's largest array of wind machines, seventy-five in number, now operating in Northern California near San Francisco, has been developed and built by a British company. Japan's national public telecommunications network has recently placed an order for high-speed diagnostic and control systems with a British company, comparable surely to selling a refrigerator to an Eskimo.

And in another exciting development, the UK Institute for Oceanographic Studies has produced a device called GLORIA (Geological Long Range Inclined Asdic), capable of mapping the ocean floor in detail and at a speed (over twenty thousand square kilometres a day) that had not hitherto been possible.

Progress of this kind is based on the solid tradition that has brought Nobel prizes for science to sixty-eight British citizens, a number only exceeded by the United States.

Before I close, there is one other aspect of our national life that deserves a mention because it, too, illustrates the influence Britain still exerts around the world. I refer to the arts. Someone recently suggested to me that PBS (Public Broadcasting System in the U.S.), as applied to television, stood for "Principally British Shows." Certainly anyone who views regularly the programmes carried on the PBS network may be excused for thinking these terms. The quality and variety of the production of the British television industry commands widespread appeal, whether it be "Yes, Minister" or the BBC Shakespeare series, "Coronation Street" or "Brideshead Revisited."

Similarly with the theatre and cinema, music, painting and sculpture, literature or the world of pop music. In all these media, Britain continues to demonstrate both originality and creativity. And the BBC World Service is probably listened to by more policymakers and opinion-formers around the world than any other comparable service.

I return, therefore, to my original theme. Britain can no longer impose its wishes and views on others, nor has it any desire to do so. We cannot on our own prevail, in global terms, militarily or economically, but then who can? We recognise our dependence upon, and our interdependence with, others, and, in particular, our allies and friends. But in the new international framework within which we are all obliged to operate, I hope that I may have demonstrated that Britain does have a role to play, that we have the capacity to exercise an influence, and that we have the will to use that influence for the common good.

The appreciation of the audience was expressed by Col. Robert H. Hilborn, President of The Empire Club Foundation, and a distinguished Past President of The Empire Club.

MEMBERSHIP, 1985-1986

Honorary Members

Kathleen Davis
The Hon. William G. Davis, P.C., Q.C.
J. Stanley St John
Sir Michael Scott

Life Members

N. John Adams
Setrak Adourian
J.D. (Douglas) Alexander
John P. Alexander
William N. Allan
Dr. Blandford M.E. Allan
Graham H. Ambrose
Donald S. Anderson
B.Gen. & Mrs. S.F. Andrunyk
Leland H. Ausman
Ruby P. Avison

Victor V. Bagnato
John Bassett
Mr. & Mrs. Ian S. Baxter
S.E. Beare
D.S. Beatty
M.E. Louise Beck
Everton R. Belyea
Ferne Bennett
Dr. R.C. Bennett
Douglas W. Best
Bruce Birrell
Willis L. Blair
Norman Borins
R.L. Broad
F.B. Brooks-Hill
Arthur E. Brown
E.T.C. Burke

W. Allan Campbell
Ernest P. Carr
Charles Carter
Harvey Chatterson
Sir Arthur R.T. Chetwynd, Bt.
James L. Clare, F.S.A., F.C.I.A.
Walter W. Comber
Eleanor Cook
Geo. A. Corey
Benedict G.R. Cotterill
Lt.Col. John A.D. Craig
Dr. H.V. Cranfield, F.R.C.P.(C)
Dr. & Mrs. C.B. Crummey
Mrs. Matthew Currie
T.E. Curry

Charles O. Dalton
George C. Damiani, Q.C.
Bertha E. Davies
Douglas A.C. Davis
Fraser Deacon Sr.
Elvio Del Zotto
Dr. Duncan R. Derry
Mr. & Mrs. D.L. Derry
L.Col. R.G. Douglas, C.D.
Jessie G. Drysdale
A.A. Duncanson
E.B. Dungey
Mr. & Mrs. E.A. Duvernet

Donald L.H. Eaton
Joseph L. Etherington
Frederick A. Evis, Q.C., M.D.

A.E. Fitzpatrick
Frank E. Forsdike
Federico Friedberg
Col. C.S. Frost Jr., Q.C., C.D.
Hillard I. Funston

George Raymond Gibson
D.R. Gillelan
Graham Gore
John W. Graham, Q.C.
Kenneth G. Graham
J. Rennie Graham
Wayne Scarisbrick Gray
John W.F. Griffin
Ian Griffin
Robert Glenn Groom

B. Halstead
E.H.P. Hamilton
George S. Hanson, M.B.E.
George M. Hargraft
Rudi Haussman
Hon. Paul T. Hellyer, P.C.
Roland E. Henderson, Q.C.
R.I. Hendy
Mr. & Mrs. J.T. Hepburn
Adam B.T. Hermant
John D. Hermant
Peter Hermant
Sydney Hermant
John D. Herrick
Col. R.H. Hilborn
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Auditor's Report

To the Members of
The Empire Club of Canada

We have examined the balance sheet of The Empire Club of Canada as at 30 April 1986 and the statements of members' equity and revenue and expenditure for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Club as at 30 April 1986 and the results of its activities for the year then ended in accordance with the accounting principles as set out in Note 1 to the financial statements applied on a basis consistent with that of the preceding year.

DUNWOODY & COMPANY
CHARTERED ACCOUNTANTS

Toronto, Ontario
10 June 1986

THE EMPIRE CLUB OF CANADA

Balance Sheet as at 30 April 1986

Assets

	1986	1985
Current		
Cash and short term deposit receipts	$ 158,370	$ 168,408
Accounts receivable	2,868	7,143
Inventory	261	547
	161,499	176,098
Fixed Assets	1	1
	$ 161,500	$ 176,099

Liabilities

	1986	1985
Current		
Accounts payable	$ 42,545	$ 29,247
Due to The Empire Club Foundation	33,490	61,136
Membership fees and luncheon tickets paid in advance	5,349	7,779
	63,384	98,162
Members' Equity		
Life Membership Reserve, note 2	23,750	21,300
Surplus	74,366	56,637
	98,116	77,937
	$ 161,500	$ 176,099

Significnt Accounting Policies, note 1
Commitment, note 3

Approved on behalf of the Board

HARRY SEYMOUR
NONA MACDONALD
DIRECTORS

THE EMPIRE CLUB OF CANADA

Statement of Members' Equity
For the Year Ended 30 April 1986

	1986	1985
Surplus, Beginning of Year	$ 56,637	$ 34,629
Transfer to life membership reserve	(2,450)	(1,400)
Excess of revenue over expenditure for the year	20,179	23,408
Surplus, end of year	74,366	56,637
Life Membership Reserve, Beginning of Year	21,300	19,900
Transfer from surplus, note 2	2,450	1,400
Life Membership Reserve, End of Year	23,750	21,300
	$ 98,116	$ 77,937

Financial Report

THE EMPIRE CLUB OF CANADA

Statement of Revenue and Expenditure
For the Year Ended 30 April 1986

	1986	1985
Revenue		
Membership fees	$ 74,268	$ 70,663
Luncheons — net	26,660	29,944
Interest	9,945	12,868
Others — net	7,557	9,668
	118,430	123,143
Expenditure		
Members' notices	27,308	26,810
Office salaries and employee benefits	25,408	25,714
Yearbook donation and sundry expenses	13,494	11,862
Publicity and promotion	1,956	2,939
Printing, stationery and postage	9,288	9,096
Rent	8,238	7,024
Meetings	650	640
Office and general	10,656	14,380
Telephone	1,253	1,270
	98,251	99,735
Excess of Revenue over Expenditure For the Year	$ 20,179	$ 23,408

THE EMPIRE CLUB OF CANADA

Notes to Financial Statements for the Year Ended 30 April 1986

1. *Significant accounting policies*
   The following is a summary of significant accounting policies of the Club:
   (a) Inventory
   Inventory is valued at the lower of cost and net realizable value.
   (b) Fixed Assets
   Fixed assets, consisting of office furniture and equipment, are recorded at nominal value and additions are recognized as an office and general expenditure in the year acquired.
   (c) Due to The Empire Club Foundation
   A donation to The Empire Club Foundation for the estimated cost of supplying the Club's membership with the yearbook of the current year is accrued each year. The balance represents the estimated costs of unpublished yearbooks.
2. *Life Membership Reserve*
   Term deposit receipts are segregated as funding for this reserve in order to provide a continuing income to sustain the membership costs of life members. The reserve has been increased by $2,450 (1985 - $1,400) in the current year to allow for increases in the life membership roll.
3. *Commitment*
   The Club occupies office space which it shares with another society under a lease agreement expiring 30 September 1987 at a rental to be increased annually by 7.75%.
4. *Incorporation*
   The Club was incorporated under letters patent in the Province of Ontario on 26 March 1912. The principal function of the Club is to provide a forum for prominent people to address members of the Club and their guests on topics of current interest.

BEQUESTS TO THE FOUNDATION

This Yearbook of the Emprire Club of Canada is published by The Emprire Club Foundation which is recognized by the Department of National Revenue as a charitable foundation for tax purposes. Over four thousand copies of the Yearbook are distributed free of charge to educational libraries.

Please remember the Foundation in your Will to enable it to carry on the uniquely Canadian, patriotic and historic work of the Foundation. The following form of bequest is recommended.

> "I give and bequeath to The Emprire Club Foundation,
> a Canadian charitable organization, registered under
> Section (27) of The Canadian income Tax Act, with
> offices at 100 Front St. West, Toronto, Canada M5J 1E3
> the sum of $__________ to be used for its general
> charitable purposes."

For enquiries, please call the Empire Club of Canada at telephone number (416) 364-2878.

The Empire Club Foundation
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McDonald's Restaurants of Canada Limited
Molson Ontario Breweries Limited
Scotiabank, Bank of Nova Scotia
Sears Canada Inc.
Southam Inc.
Toronto Star Newspapers Limited

DONORS ($100.00 to $299.99)

The Algoma Steel Corporation Limited
Mr. John D. Allan
C. Badoer
Mr. J. Bata
Mr. Paul von Benckendorff
Mr. Jim Benquj
Mr. Ross R. Blakely
W.B. Boggs
Canada Packers Inc.
Canadian Corporate Management Company Limited
Mr. Garry W. Caughlin
Mrs. Henrietta M. Charlton
Mr. Jerry Collins
Commercial Union Assurance Company of Canada
Consolidated-Bathurst Inc.
Continental Can Canada Inc.

Mr. T.E. Curry
Mrs. S. Diane Denman
Dow Chemical Canada Inc.
D.W.S. Dunlop
Esso Resources Canada Limited
Mr. Dennis Flynn
Mr. & Mrs. John Grosart
Mr. Robert F. Gulliford
Mr. Clifford D. Harding
Mr. Peter Hermant
Mr. Nigel Hilliard
Mr. Peter Hunter
Mr. Edward B. Jolliffe
Mr. Daniel Lang
Mr. Randall W. LeGallais
Mr. Reginald W. Lewis
Mr. John H. Lupp
Mr. John MacBeth
Mrs. Nona MacDonald
Mr. Robert J. McGavin
Mr. & Mrs. Wm. McGuigan
A.G. Miller
Minas Basin Pulp and Power Company Limited
Rabbi Dr. David Monson
S.A. Murray Consulting
Mr. C.M. Muskat
The National Life Assurance Company
Mr. Ray Patrick
Mr. James B. Pitblado
J.H. Potts
The Royal Bank of Canada
Mr. Thomas H. Savage
Mr. Stewart A. Searle
Mr. & Mrs. H.T. Seymour
Mr. Walter E. Stracey
Wendy Cecil-Stuart
Dr. & Mrs. A. Squires
Mr. J.M. Thompson
Price Waterhouse
Mr. William J. Weldon
Mr. John H. White
Mr. John Yaremko

Auditor's Report

To the Members of
The Empire Club Foundation

We have examined the balance sheet of The Empire Club Foundation as at April 30, 1986 and the statement of income and expense and members' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of The Empire Club Foundation as at April 30, 1986 and the result of its operations for the year ended in accordance with the accounting principles outlined in Note 2, applied on a basis consistent with that of the preceding year.

"SMITH, NIXON & CO."
CHARTERED ACCOUNTANTS

Toronto, July 14, 1986

Financial Report

THE EMPIRE CLUB FOUNDATION

Balance Sheet as at April 30, 1986

	1986	1985
Assets		
Current Assets		
Cash and term deposit	$ 17,453	$ 1,466
Due from Empire Club of Canada	33,490	61,136
	$ 50,943	$ 62,602
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 42,783	$ 37,150
Members' Equity		
Equity	8,160	25,452
	$ 50,943	$ 62,602

Signed on behalf of the Board

"ROBERT H. HILBORN"
"R. BREDIN STAPELLS"
DIRECTORS

Financial Report

THE EMPIRE CLUB FOUNDATION

Statement of Income and Expense and Members' Equity
For the Year Ended April 30, 1986

	1986	1985
Income		
Donations:		
Empire Club of Canada	$ 10,960	$ 11,000
Supporters	21,113	22,982
The Empire Ball	12,962	11,668
Interest	270	2,923
Book sales	—	36
	45,305	48,609
Expense		
Yearbook (Note 3)	61,317	36,572
Stationery, postage and other expenses	1,280	828
	62,597	37,400
Excess of Income Over Expense (Expense Over Income) For the Year	(17,292)	11,209
Members' Equity - Beginning of Year	25,452	14,243
Members' Equity - End of Year	$ 8,160	$ 25,452

THE EMPIRE CLUB FOUNDATION

Notes to Financial Statements for the Year Ended April 30, 1986

1. *The Foundation*

   The Foundation was incorporated on January 22, 1969 under the laws of Canada as a non-profit organization. The principal function of the Foundation is the publication and distribution of yearbooks, containing the texts of addresses to the Empire Club of Canada, to the Club's members and libraries across Canada. The Foundation's activities are funded by donations.

2. *Accounting Policies*

   The Foundation includes donations in income when received except for donations from the Empire Club of Canada which are included in income when pledged. The estimated cost of publishing and distributing yearbooks of the current year is accrued each year.

3. *Yearbook Expense*

   As a result of a redesign of the yearbook, actual costs of the 1984-1985 yearbook exceeded estimated costs by $18,897. This amount is included in yearbook expense for the year ended April 30, 1986.

SMITH, NIXON & CO.
CHARTERED ACCOUNTANTS